



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## Discovery Clean Water Alliance

For the period January 1, 2020 through December 31, 2020

*Published May 10, 2021*

Report No. 1028250



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

May 10, 2021

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

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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## 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*

### **Discovery Clean Water Alliance January 1, 2020 through December 31, 2020**

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, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements, and have issued our report thereon dated April 30, 2021.

As discussed in Note 9 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Alliance is unknown.

## 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

April 30, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **Discovery Clean Water Alliance January 1, 2020 through December 31, 2020**

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, as of and for the year ended December 31, 2020, 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, 2020, 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.

## **Matters of Emphasis**

As discussed in Note 9 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Alliance is unknown. Our opinion is not modified with respect to this matter.

## **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 April 30, 2021 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

April 30, 2021

## **FINANCIAL SECTION**

### **Discovery Clean Water Alliance January 1, 2020 through December 31, 2020**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2020

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2020

Statement of Revenues, Expenses and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

**DISCOVERY CLEAN WATER ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020**

**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, 2020.

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 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.

The *Statement of Net Position* presents information on all of the Alliance's assets, liabilities and deferred outflows of resources, with the difference 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.

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.

**DISCOVERY CLEAN WATER ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020**

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 2020, the assets of the Alliance exceeded its liabilities by \$111.2 million. Of this amount, \$11.8 million is classified as unrestricted and may be used to meet the Alliance's ongoing obligations. This constitutes a total increase of \$3.8 million in net position from 2019, due to 2020 operating income.
- Regional Service Charges (RSCs) of \$14.2 million were billed to the City of Battle Ground and the District in 2020. This constitutes most operating revenues of the Alliance.
- The Alliance was charged \$4.6 million by other governments for treatment plant operator services.

**Assets, Deferred Outflows, Liabilities and Net Position**

December 31	2020	2019	2020 to 2019 Change	%
<i>Assets</i>				
Current and other assets	\$ 13,127,072	\$ 10,397,445	\$ 2,729,627	26%
Capital assets	124,414,140	119,515,534	4,898,606	4%
Total assets	<u>137,541,212</u>	<u>129,912,978</u>	<u>7,628,234</u>	6%
Deferred Outflows	3,000,744	3,031,570	(30,826)	100%
<i>Liabilities</i>				
Long-term liabilities	27,039,672	24,704,911	2,334,761	9%
Other liabilities	2,289,218	811,434	1,477,784	182%
Total liabilities	<u>29,328,890</u>	<u>25,516,345</u>	<u>3,812,545</u>	15%
<i>Net position</i>				
Net investment in capital assets	99,447,344	98,799,602	647,742	1%
Unrestricted	<u>11,765,722</u>	<u>8,628,601</u>	<u>3,137,121</u>	36%
Total net position	<u>\$ 111,213,066</u>	<u>\$ 107,428,203</u>	<u>\$ 3,784,861</u>	

- The Alliance's structure results in a planned increase in total net position. RSCs are based on budget and are designed to cover (on a cash basis) operating expenses, debt service payments, and capital expenditures. Because capital expenditures exceeded depreciation expense in 2020, the Alliance's net position increased.

**DISCOVERY CLEAN WATER ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

Investment in capital assets includes construction work in progress, land, buildings, pump stations, transmission lines, machinery and equipment. The Alliance's total net capital assets as of December 31, 2020 were \$124.4 million, an increase of \$4.9 million. Major capital asset additions include costs of \$7.5 million in 2020, for capital improvements to the Salmon Creek Wastewater Treatment Plant. 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 \$12.0 million in new revenue bonds to finance the defeasance of the District's 2005 revenue bonds (\$8.7 million) and for reconstruction and repair of existing systems (\$3.3 million). The outstanding balance owed at December 31, 2020, is \$6.7 million.
- In 2019, the Alliance was awarded a \$9.0 million Public Works Board (PWB) loan. Through December 31, 2020, \$5.5 million has been drawn on the loan. Payments on this loan are scheduled to begin in 2021.
- In 2020, long-term liabilities increased by \$2.3 million from 2019, due to scheduled debt service payments of \$3.3 million and the new PWB loan.
- Loans payable of \$16.1 million at year end include the following:
  - \$9.9 million for PWB loans granted for the Phase IV construction of the Salmon Creek Treatment Plant
  - \$5.5 million for PWB loan granted for the Phase V construction of the Salmon Creek Treatment Plant
  - \$0.4 million on the State Revolving Fund (SRF) loan used for Phase IV construction of the Salmon Creek Wastewater Management System
  - \$0.3 million on the SRF loan used for the Ridgefield Treatment Plant upgrade
- Please refer to Note 5, Long-Term Liabilities on pages 33-35, for more detailed information regarding long-term debt activity.
- The Alliance recognizes an ARO related to the Ridgefield Treatment Plant of \$4.2 million. See Note 7, Asset Retirement Obligations, on page 37 for further detail.

**DISCOVERY CLEAN WATER ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020**

**Revenues and Expenses**

	2020	2019	2020 to 2019 Change	%
<b>REVENUES</b>				
Regional Service Charges	\$ 14,229,825	\$ 14,229,825	\$ 0	0%
Operating revenue - miscellaneous	12,873	-	12,873	0%
Non-operating - interest earnings	126,422	169,039	(42,617)	-25%
Non-operating - miscellaneous	-	262,023	(262,023)	-100%
Total revenue	<u>14,369,120</u>	<u>14,660,887</u>	<u>(291,767)</u>	-2%
<b>EXPENSES</b>				
Operating expenses	10,137,055	10,251,948	(114,893)	-1%
Non-operating - interest expense	300,107	323,291	(23,184)	-7%
Non-operating - miscellaneous	147,095	-	147,095	
Total expenses	<u>10,584,257</u>	<u>10,575,239</u>	<u>9,018</u>	0%
CHANGE IN NET POSITION	3,784,863	4,085,648	(300,785)	-7%
NET POSITION, January 1	<u>107,428,203</u>	<u>103,342,555</u>	<u>4,085,648</u>	4%
NET POSITION, December 31	<u>\$ 111,213,066</u>	<u>\$ 107,428,203</u>	<u>\$ 3,784,863</u>	4%

- The Alliance received \$14.2 million in Regional Service Charge (RSC) revenues from two Members, the District and Battle Ground. These RSCs represented 99.9% of the Alliance's operating revenues in 2020. RSCs remained unchanged in 2020 from 2019 as RSCs are based on budget and the Alliance budgets on a biennial basis.
- Operating expenses in 2020 totaled \$10.1 million, a decrease of \$0.1 million (or 1.2%) from 2019. Treatment plant operations expenses decreased by \$0.2 million (or 4.0%) as a result of operational efficiencies. Treatment plant operations represent 45.7% of total operating expenses, while depreciation represents 37.7% of total operating expenses.

**Economic Factors and 2021/2022 Budget**

Following federal declaration of a public health emergency on February 29, 2020, Governor Inslee proclaimed a State of Emergency (Proclamation 20-05) for all counties throughout the state of Washington as a result of the coronavirus disease 2019 (COVID-19) outbreak, which has been classified by the World Health Organization as a worldwide pandemic. While economic uncertainties persisted through 2020, and continue into 2021, the Alliance continued to experience positive operating income while building reserves per the operational framework between Member agencies. At the same time, the Alliance has continued to formulate long-range financial forecasts and adopted biennial budgets to fund all Regional Asset operations, service debt outstanding on those assets, repair or replace existing wastewater collection/treatment infrastructure and construct new infrastructure when necessary. The Alliance has budgeted \$18.9 million in 2021-2022, for capital improvements to the Salmon Creek Wastewater Treatment Plant to meet the growing demand for wastewater treatment services in the region.

**DISCOVERY CLEAN WATER ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020**

**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](http://www.discoverycwa.org).

**DISCOVERY CLEAN WATER ALLIANCE**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020**

	2020
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 11,412,337
Prepaid expenses	165,085
Due from other governments	53,093
Total current assets	11,630,515
<b>NONCURRENT ASSETS</b>	
Contracts receivable	1,496,557
Capital assets not being depreciated:	
Land	336,301
Construction work in progress	14,708,043
Total capital assets, not being depreciated	15,044,344
Capital assets being depreciated:	
Infrastructure	129,871,974
Equipment	80,670
Less: accumulated depreciation	(20,582,848)
Total capital assets being depreciated	109,369,796
Total noncurrent assets	125,910,697
Total assets	137,541,212
<b>DEFERRED OUTFLOWS of RESOURCES</b>	
Amounts related to asset retirement obligation	3,000,744
<b>TOTAL DEFERRED OUTFLOWS of RESOURCES</b>	<b>3,000,744</b>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 2,217,826
Interest payable	71,392
Sewer revenue bonds, current	1,280,000
Loans payable, current	2,302,268
Total current liabilities	5,871,486
<b>NONCURRENT LIABILITIES</b>	
Sewer revenue bonds, long term	5,445,000
Loans payable, long term	13,812,404
Asset retirement obligation	4,200,000
Total noncurrent liabilities	23,457,404
Total liabilities	29,328,890
<b>NET POSITION</b>	
Net investment in capital assets	99,447,344
Unrestricted	11,765,722
Total net position	<b>\$ 111,213,066</b>

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, 2020**

	2020
OPERATING REVENUES	
Regional Service Charges	\$ 14,229,825
Other operating revenue	12,873
Total utility operating revenues	14,242,698
OPERATING EXPENSES	
Administrative Lead services	679,667
Professional services	82,734
Treatment plant operations	4,630,680
Repairs and maintenance	747,518
Insurance	175,457
Miscellaneous	2,222
Depreciation	3,818,777
Total operating expenses	10,137,055
OPERATING INCOME	4,105,643
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	126,422
Loss on disposal of capital assets	(147,095)
Interest expense	(300,107)
Total non-operating revenues (expenses)	(320,780)
CHANGE IN NET POSITION	3,784,863
TOTAL NET POSITION, January 1	107,428,203
TOTAL NET POSITION, December 31	\$ 111,213,066

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, 2020**

	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 14,276,003
Payments to suppliers	(6,179,277)
Receipts from other operating activities	12,873
Net cash from operating activities	8,109,599
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from capital debt	5,465,700
Principal paid on capital debt	(3,330,939)
Interest paid on capital debt	(286,091)
Purchase and construction of capital assets	(7,328,301)
Net cash from capital and related financing	(5,479,631)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	126,422
Net cash from investing activities	126,422
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	 2,756,390
 <b>CASH AND CASH EQUIVALENTS, January 1</b>	 8,655,947
<b>CASH AND CASH EQUIVALENTS, December 31</b>	<b>\$ 11,412,337</b>

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, 2020**

	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Utility operating income (loss)	\$ 4,105,643
Adjustments to reconcile operating income to net cash flows from operating activities	
Depreciation expense	3,818,777
Amortization of deferred outflow	230,826
(Increase) decrease in prepaid expenses	(19,416)
Increase (decrease) in accounts payable	(72,408)
(Increase) decrease in contracts receivable	(68,698)
(Increase) decrease in due from other governments	114,875
Total adjustments	4,003,956
Net cash from operating activities	\$ 8,109,599
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Noncash capital financing	\$ (11,021)

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 Special Purpose Districts reporting in conformity with GAAP.

The statements of the Alliance 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 currently invests 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. Other allowable investments include the Local Government Investment Pool (LGIP) and investments authorized by the Revised Code of Washington (RCW) Chapters 39.58 and 39.59. 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 page 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)**

**Prepaid Expenses** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The Alliance recognized expenses in the period services are provided.

**Due from Other Governments** – Due from Other Governments represent Member Regional Service Charges for treatment services, which are recognized as earned.

**Contracts Receivable** – Contracts receivable represent operating and repair and replacement reserves held by Clark County, who provides treatment plant operation services for the Alliance.

**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:

Treatment plant components	15-50 years
Pump station components	10-50 years
Collection and transmission system	75 years
Machinery, furniture and equipment	5-10 years

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

**Deferred Outflows of Resources** – The Alliance recognized a deferred outflow of resources related to an Asset Retirement Obligation. See Note 7, Asset Retirement Obligations (page 37).

**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.

**Long-Term Debt** – See Note 5, Long-Term Liabilities (pages 33-35).

## 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 investments and deposits held at December 31, 2020, comply with the provisions of that code section and the Alliance’s investment policy adopted under Resolution 2019-01. Cash on hand at December 31, 2020, was \$5,031,190, 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 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 deposit policy for custodial credit risk. No bank balances are exposed to custodial credit risk.

**Investments** – It is the Alliance’s policy to invest funds to provide maximum security at the highest market investment return, while maintaining the ability to meet daily cash flow demands and conforming to state statutes governing the investment of public funds.

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 (authorized under Resolution 2019-01) assists in limiting interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The investment policy limits investing in operating funds primarily to shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio not to exceed two and one-half years.

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 limits credit risk by establishing investment portfolio diversification requirements 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 that are in the possession of an outside party. The Alliance’s investment policy mitigates credit risk by establishing prequalifying requirements for the financial institutions, broker/dealers, intermediaries, and advisers with which the Alliance will do business. Alliance deposits and investments are either insured or held by an agent in the Alliance’s name.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Alliance’s investment policy establishes diversification constraints on the investment portfolio by defining maximum per issuer limits as a percentage of total investment of funds.

**Note 2 – Deposits & Investments (Continued)**

**Investments in Clark County Investment Pool (CCIP)** – The Alliance is a participant in the Clark County Investment Pool (CCIP), an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather; oversight is provided by the Clark County Finance Committee in accordance with RCW 36.48.070. 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 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.

**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, 2020, the Alliance had the following investments measures at fair value:

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*	\$ 6,381,147			
Total Investments by Fair Value Level	\$ 6,381,147	\$ -	\$ -	\$ -

\*The Alliance's investment in the Clark County Investment Pool is not required to be categorized within the fair value heirarchy.

### Note 3 – Capital Assets

Capital assets activity for the year ended December 31, 2020, was as follows:

	Balance Jan. 1, 2020	Additions & Transfers	Retirements & Transfers	Balance Dec. 31, 2020
<b>CAPITAL ASSETS - NONDEPRECIABLE:</b>				
Land and land rights	\$ 135,131	\$ 201,170	\$ -	\$ 336,301
Construction work-in-progress	7,098,000	8,663,307	1,053,264	14,708,043
Total capital assets - nondepreciable	<u>7,233,131</u>	<u>8,864,477</u>	<u>1,053,264</u>	<u>15,044,344</u>
<b>CAPITAL ASSETS - DEPRECIABLE:</b>				
Collection and transmission system	30,101,579	-	-	30,101,579
Treatment plants	77,996,615	1,051,782	170,835	78,877,562
Pump stations	20,891,351	1,482	-	20,892,833
Machinery, furniture and equipment	80,670	-	-	80,670
Total capital assets - depreciable	<u>129,070,215</u>	<u>1,053,264</u>	<u>170,835</u>	<u>129,952,644</u>
<b>LESS ACCUMULATED DEPRECIATION:</b>				
Collection and transmission system	(3,326,442)	(401,354)	-	(3,727,796)
Treatment plants	(10,549,984)	(2,245,998)	(23,740)	(12,772,242)
Pump stations	(2,881,409)	(1,165,434)	-	(4,046,843)
Machinery, furniture and equipment	(29,976)	(5,991)	-	(35,967)
Total accumulated depreciation	<u>(16,787,811)</u>	<u>(3,818,777)</u>	<u>(23,740)</u>	<u>(20,582,848)</u>
Total capital assets - depreciable, Net	<u>112,282,404</u>	<u>(2,765,513)</u>	<u>147,095</u>	<u>109,369,796</u>
Total capital assets, Net	<u>\$ 119,515,535</u>	<u>\$ 6,098,964</u>	<u>\$ 1,200,359</u>	<u>\$ 124,414,140</u>

#### **Note 4 – Risk Management**

The Alliance is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987, when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 70 members. The Pool's fiscal year is November 1 through October 31.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: All-Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Employment Practices Liability, Cyber Liability, Identity Fraud Reimbursement Program; Deadly Weapon/Active Shooter Response Program; and bonds of various types. Most coverages are on an "occurrence" basis.

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

**Note 4 – Risk Management (Continued)**

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
<b>Property Loss:</b>			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members and \$25,000,000 dedicated to Alderwood, \$10,000,000 dedicated to Sammamish Plateau)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000 - \$25,000	\$25,000	Replacement Value Coverage
<b>Liability:</b>			
Commercial General Liability	\$1,000 - \$25,000	\$300,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000
<b>Other:</b>			
Cyber Liability	\$50,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.			

#### **Note 4 – Risk Management (Continued)**

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2021, written notice must be in possession of the Pool by April 30, 2021). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the Alliance was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool, who determines coverage and performs claims adjustment in consultation with various independent public adjusters.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

As of December 31, 2020, there were no outstanding claims filed with the pool that exceeded the Alliance deductible of \$25,000. The Alliance recognizes no potential liability for any additional settlements for outstanding future claims. The amount of settlements did not exceed insurance coverage in the last three years.

**Note 5 – Long-Term Liabilities**

**Direct Placement Revenue Bonds** – In September 2015, the Alliance issued \$8,655,000 in revenue bonds to refund the District’s 2005 revenue bonds used to finance Phase IV construction costs of the Salmon Creek Wastewater Management System, and \$3,300,000 to finance system repairs and restoration, for a total of \$11,955,000 in new bonds. Regional Service Charge revenues provide the security for repayment of the bonds. The new bonds have an interest rate of 2.44%. Principal installments range from \$770,000 to \$1,410,000, with a final maturity date of December 1, 2025. In the event the Alliance defaults on a payment, a penalty of 4.0% per annum will be assessed. In 2020, the Alliance paid \$1,439,468 (\$1,245,000 principal and \$194,468 interest) on these bonds.

The following is a schedule of bonds containing a description of each bond, its use, and outstanding balance as of December 31, 2020:

Sewer Revenue Bonds	Bond Description	Notice of Completion	Maturity Date	Approved Bond Amount	Balance	Interest Rate
2015 Bond Issuance	Refunding 2005 Bond	September 2015	12/1/2025	\$ 8,655,000	\$ 4,590,000	2.4%
2015 Bond Issuance	R&R projects	September 2015	12/1/2025	3,300,000	2,135,000	2.4%
					<u>\$ 6,725,000</u>	

The annual debt service requirements for these 2015 sewer revenue bonds are as follows:

2015 Sewer Revenue Bonds - from direct placement			
Year Ending December 31	Principal	Interest	Total Debt Service
2021	\$ 1,280,000	\$ 164,090	\$ 1,444,090
2022	1,310,000	132,858	1,442,858
2023	1,345,000	100,894	1,445,894
2024	1,380,000	68,076	1,448,076
2025	1,410,000	34,404	1,444,404
Total	<u>\$ 6,725,000</u>	<u>\$ 500,322</u>	<u>\$ 7,225,322</u>

The Alliance is required by bond covenants to maintain debt service coverage of its revenue bonded debt of a minimum of 1.10 times the annual debt service on all outstanding bonds during the fiscal year. Debt service coverage requirements for the year ended December 31, 2020, were met.

**Direct Borrowings** – 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 Board (PWB). On January 1, 2015, six of these loans were transferred to the Alliance from the District and the City of Battle Ground. The loans from the state PWB 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. In the event the Alliance defaults on a payment, a monthly penalty of 1% (12% per annum) will be assessed.

## Note 5 – Long-Term Liabilities (Continued)

On August 2, 2019, the Alliance was awarded a \$9,040,000 PWB loan (#PC20-96103-043) to fund odor control and other improvements to the Salmon Creek Treatment Plant. The term of the loan is 20 years with an interest rate of 1.58%. In the event the Alliance defaults on a payment, a monthly penalty of 1% (12% per annum) will be assessed. The Alliance received loan proceeds of \$5,465,700 as of December 31, 2020.

The following is a schedule of PWB loans containing a description of each loan, its use, and outstanding balance as of December 31, 2020:

	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	\$ 157,895	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-04-691-033	2004	7/1/2024	10,000,000	2,146,886	0.5%
Salmon Creek Treatment Plant - Preconstruction (Phase IV)	PW-05-691-PRE-116	2005	7/1/2025	1,000,000	263,158	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PC-08-951-009	2008	7/1/2028	8,000,000	3,368,421	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-05-691-003	2005	6/1/2025	10,000,000	2,756,708	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-06-962-005	2006	6/1/2026	4,000,000	1,266,667	0.5%
Salmon Creek Treatment Plant - Construction (Phase V)	PC-20-96103-043	N/A	6/1/2040	9,040,000	5,465,700	1.58%
					<u>\$ 15,425,435</u>	

In 2020, the Alliance paid \$1,885,416 (\$1,825,490 principal and \$59,926 interest) on PWB loans. The annual debt service requirements for the PWB loans payable are as follows:

### State of Washington - Public Works Board Loans Summary - from direct borrowing

Year Ending December 31	Principal	Interest	Total Payments
2021	\$ 2,059,858	\$ 135,232	\$ 2,195,090
2022	2,063,575	122,391	2,185,966
2023	2,067,352	109,485	2,176,837
2024	2,018,557	96,522	2,115,079
2025	1,485,733	83,761	1,569,494
2026-2030	2,782,907	304,068	3,086,975
2031-2035	1,415,773	183,244	1,599,017
2035-2040	1,531,680	67,337	1,599,017
Total	<u>\$ 15,425,435</u>	<u>\$ 1,102,040</u>	<u>\$ 16,527,474</u>

**Note 5 – Long-Term Liabilities (Continued)**

In 2006, the District was granted a \$1,003,676 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. In the event the Alliance defaults on a payment, a monthly penalty of 1% (12% per annum) will be assessed.

The following is a schedule of SRF loans containing a description of each loan, its use, and outstanding balance as of December 31, 2020:

	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	\$ 1,003,636	\$ 364,449	2.6%
Ridgefield Treatment Plant - Upgrade	L9800042	November 2002	1/1/2022	2,972,860	324,788	4.4%
					<u>\$ 689,237</u>	

Debt service on SRF loans in 2020 was \$292,146 (\$260,449 principal and \$31,697 interest). The annual debt service requirements for these SRF loans payable are as follows:

Year Ending December 31	State Revolving Fund - from direct borrowing						
	Salmon Creek Treatment Plant Construction		Ridgefield Treatment Plant Upgrade		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total Payments
2021	\$ 28,249	\$ 4,763	\$ 214,161	\$ 11,961	\$ 242,410	\$ 16,724	\$ 259,134
2022	57,610	8,415	110,627	2,434	168,237	10,849	179,086
2023	59,126	6,899	-	-	59,126	6,899	66,025
2024	60,682	5,343	-	-	60,682	5,343	66,025
2025	62,278	3,746	-	-	62,278	3,746	66,025
2026-2027	96,504	2,534	-	-	96,504	2,534	99,037
Total	<u>\$364,449</u>	<u>\$ 31,700</u>	<u>\$ 324,788</u>	<u>\$ 14,395</u>	<u>\$ 689,237</u>	<u>\$ 46,095</u>	<u>\$ 735,332</u>

Changes in long-term liabilities as a summary for the year ended December 31, 2020:

	Balance Jan. 1, 2020	Additions	Reductions	Balance Dec. 31, 2020	Due Within One Year
Revenue bonds payable - direct placement	\$ 7,970,000	\$ -	\$ 1,245,000	\$ 6,725,000	\$ 1,280,000
Loans payable - direct borrowing	12,734,911	5,465,700	2,085,939	16,114,672	2,302,268
Asset retirement obligation	4,000,000	200,000	-	4,200,000	-
Total long-term liabilities	<u>\$ 24,704,911</u>	<u>\$ 5,665,700</u>	<u>\$ 3,330,939</u>	<u>\$ 27,039,672</u>	<u>\$ 3,582,268</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 2020, two of the Member agencies, the District and Battle Ground, paid monthly Regional Service Charges (RSCs) to the Alliance. RSCs paid in 2020 funded Alliance wastewater treatment operations. These RSCs were based on the 2021-2022 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 2021-2022 biennial budgets and Operator Agreements between the Alliance and County, and the Alliance and District.

During 2020, the Alliance received, by Member, the following in RSCs:

	<u>2020</u>
Clark Regional Wastewater District	\$ 11,099,983
City of Battle Ground	<u>3,129,842</u>
Total Regional Service Charges	<u>\$ 14,229,825</u>

The Alliance was billed \$965,230 in 2020, from the District for administrative oversight. This amount represents \$582,070 for Administrative Lead services (staff time) provided, as well as expenses of \$383,160 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 Regional Asset operations services. In 2020, the Alliance was billed \$3,999,891 by Clark County and \$699,486 by the District as contract operators.

The County, the District, Battle Ground and Ridgefield receive financial and accountability audits from the Washington State Auditor’s Office annually.

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 - Asset Retirement Obligations

The District implemented GASB 83, *Certain Asset Retirement Obligations*, which provides reporting guidance on asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset that has a substantial cost to a government.

An ARO is recognized when the liability is incurred and reasonably estimable. Incurrence of a liability requires both an internal obligating event and an external obligating event resulting from normal operations. An internal obligating event includes acquiring or placing a capital asset into operation. An external obligating event requires federal, state, or local laws or regulations, a binding contract, or issuance of a court judgement requiring specific actions to retire an asset. An ARO has a related deferred outflow of resources, which represents the unamortized balance of the ARO.

The Alliance owns and operates the Ridgefield Wastewater Treatment plant (RTP) and the Salmon Creek Wastewater Treatment Plant (SCTP), both of which are within the scope of GASB 83. The Alliance is responsible for 100% of the decommissioning costs of both plants. Prior to decommissioning a wastewater treatment plant, the Washington State Department of Ecology (Ecology) would require an update to the wastewater collection system General Sewer Plan consistent with WAC 173-240-050 to indicate how the collection system would be modified to deliver flow to another treatment facility. Ecology would further require that capacity be identified in the receiving treatment facility through an Engineering Report consistent with WAC 173-240-060.

The City of Ridgefield transferred ownership of the RTP to the Alliance on January 1, 2015. The City of Ridgefield and Discovery Clean Water Alliance Ridgefield Treatment and Outfall Transfer Agreement requires the Alliance to remediate any ground contamination caused by the Alliance to then-current federal and state environmental standards and restore the premises to cleared street level surface upon decommissioning of the plant.

Therefore, the acquiring of the RTP and the required decommissioning activities as determined by the Transfer Agreement results in an ARO. As a result, the Alliance has recognized an ARO of \$4,200,000 as of December 31, 2020 for the RTP. The Alliance obtained an estimate of project construction costs from an engineering consultant in 2016. Construction estimates have been adjusted by an annual escalation rate of 5%. The ARO includes construction, project delivery and contingency costs. Decommissioning of the plant is estimated to occur by 2034. Funding is expected from a combination of Regional Service Charges collected from Clark Regional Wastewater District and Alliance reserves previously received from the City of Ridgefield. Flows to the RTP will be redirected to the SCTP.

Clark County transferred ownership of the SCTP to the Alliance on January 1, 2015. The Alliance has an ARO for the plant, however, is not reporting an ARO on the Statement of Net Position for the SCTP as the time frame for decommission and extent of the obligation was considered indeterminate. An estimated 120,000 residents living in unincorporated Clark County and the cities of Battle Ground and Ridgefield rely on this important facility every day. The SCTP is the last part of the wastewater conveyance system. All sewer pipes and pump stations are designed with one purpose: to reliably carry wastewater from homes and businesses to the treatment plant. Plant expansion and flow projections have been estimated through 2070. The maximum treatment capacity of the SCTP site is estimated to occur in 2065. At that time, excess flows will be directed to the City of Vancouver's Westside Water Reclamation Facility. An ARO will be reported if future events warrant a change.

## Note 8 – Construction Commitments

**Capital Projects** – The Alliance has construction commitments resulting from active consultant and construction projects, including restoration and replacement projects, as of December 31, 2020, exceeding \$100,000 as follows:

<u>Project</u>	<u>Total Awarded Contract Commitment</u>	<u>Spent to Date</u>	<u>Remaining on Contract</u>
Salmon Creek Treatment Plant HVAC Replacements	\$ 1,061,548	\$ 879,956	\$ 181,592
Salmon Creek Treatment Plant Boiler Gas Boosters	223,304	136,584	86,720
Salmon Creek Treatment Plant Phase 5B	10,127,535	7,659,832	2,467,703
	<u>\$ 11,412,387</u>	<u>\$ 8,676,372</u>	<u>\$ 2,736,015</u>

Of the committed balance of \$2,736,015, the Alliance will use proceeds of \$2,324,651 from the existing PWB loan.

## **Note 9 – COVID-19 Pandemic**

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

The Alliance's operating revenues come entirely from Regional Service Charges paid by the District and Battle Ground. To date, neither entity has reported significant financial or operational impacts.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the Alliance is unknown at this time.

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