



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Financial Statements Audit Report**

**Discovery Clean Water Alliance**

**Clark County**

**For the period January 1, 2013 through December 31, 2014**

**Published April 6, 2015**

**Report No. 1013906**





**Washington State Auditor**  
**Troy Kelley**

April 6, 2015

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,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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**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, 2013 through December 31, 2014**

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 years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements, and have issued our report thereon dated March 23, 2015.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits 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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

March 23, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Discovery Clean Water Alliance Clark County January 1, 2013 through December 31, 2014**

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 years ended December 31, 2014 and 2013, 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 audits. We conducted our audits 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, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

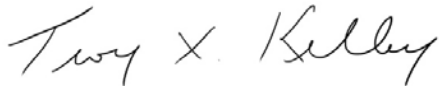
## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 14 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 March 23, 2015 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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

March 23, 2015



## FINANCIAL SECTION

**Discovery Clean Water Alliance  
Clark County  
January 1, 2013 through December 31, 2014**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014 and 2013

### **BASIC FINANCIAL STATEMENTS**

Comparative Statement of Net Position – 2014 and 2013

Comparative Statement of Revenues, Expenses and Changes in Fund Net Position – 2014  
and 2013

Comparative Statement of Cash Flows – 2014 and 2013

Notes to Financial Statements – 2014 and 2013

**DISCOVERY CLEAN WATER ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2014 AND 2013**

**INTRODUCTION**

Management of the Discovery Clean Water Alliance (Alliance), readers of the Alliance's financial statements are provided this narrative overview and analysis of the financial activities for the fiscal years ended December 31, 2014 and 2013.

The Alliance is a newly formed municipal corporation established under the Joint Municipal Utility Services Act (RCW 39.106.010). The Alliance was incorporated January 4, 2013. The year ended December 31, 2013 represents the first year of the Alliance's existence as a municipal corporation and the first year of operations. Throughout fiscal years 2013 and 2014, the Alliance went through a transition activity phase. The Alliance became fully operational on January 1, 2015.

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 capital 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 operations and maintenance 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 its activities.

**DISCOVERY CLEAN WATER ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2014 AND 2013**

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.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* display 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**

- The Alliance began the 2013 fiscal year with a zero cash balance, and ended the 2013 fiscal year with a balance of \$269,110 and the 2014 fiscal year with a balance of \$106,254 in cash deposits. In 2014, the Alliance invested funds with the Clark County Investment Pool and the 2014 fiscal year ended with a Clark County Investment Pool balance of \$220,538.
- The nature of the Alliance's first two years of operation and transition activities did not lend itself to the establishment of capital assets or the incurrence of long-term debt.
- Liabilities consisted of \$39,775 in administrative lead charges from the District and \$19,753 in legal bills at fiscal year-end 2013 and \$56,668 in administrative lead charges from the District and \$7,636 in legal bills at fiscal year-end 2014.

<b>December 31</b>	<b>2014</b>	<b>2013</b>
<i>Assets</i>		
Current and other assets	\$ 326,792	\$ 269,110
Total assets	326,792	269,110
 <i>Liabilities</i>		
Current liabilities	64,304	59,528
Total liabilities	64,304	59,528
 <i>Net position</i>		
Unrestricted	262,488	209,582
Total net position	\$ 262,488	\$ 209,582

**DISCOVERY CLEAN WATER ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2014 AND 2013**

**Revenues and Expenses**

- The Alliance received \$418,140 each year in Regional Service Charge revenues from three Members: the District, City of Battle Ground (Battle Ground) and City of Ridgefield (Ridgefield). These Regional Service Charges represented 100% of the Alliance's operating revenues in 2013 and 2014.
- Expenses in 2013 totaled \$208,558, of which 48.5% represents administrative lead charges and 51.5% represents legal fees paid to Foster Pepper PLLC. Executive and administrative activities completed include development and approval of Alliance operator agreements (Clark County and Ridgefield) and asset transfer agreements (Battle Ground and Ridgefield). Finance and treasury activities completed include drafting and adoption of investment and debt financial policies. Engineering activities completed include updates and amendments to the general sewer plans and/or facilities plans of Members.
- Expenses in 2014 totaled \$365,772, of which 85.1% represents administrative lead charges and 14.9% represents legal fees paid to Foster Pepper PLLC. Executive and administrative activities completed include an interlocal formation agreement amendment, asset transfer agreement (Clark County), franchise agreements approved (Clark County, Battle Ground), access and operating permits transferred and administrative framework assembled. Finance and treasury activities completed include preparation and adoption of 2015/2016 operating and capital budgets. Engineering activities completed include preparation and adoption of a Capital Plan.

**DISCOVERY CLEAN WATER ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2014 AND 2013**

<u>December 31</u>	<u>2014</u>	<u>2013</u>
<i>Operating revenues</i>		
Regional service charges	\$ 418,140	\$ 418,140
Non-operating	538	-
Total Revenue	<u>418,678</u>	<u>418,140</u>
<i>Operating expenses</i>		
Total expenses	<u>365,772</u>	<u>208,558</u>
Excess (deficiency) before contributions	52,906	209,582
<i>Change in net position</i>	52,906	209,582
Net position, January 1	<u>209,582</u>	<u>-</u>
Net position, December 31	<u>\$ 262,488</u>	<u>\$ 209,582</u>

**Cash Flows**

The Alliance's cash inflows for 2013 and 2014 consisted of receiving Regional Service Charges of \$34,845 in total per month from the District, Battle Ground and Ridgefield, to support the transition activities. Cash outflows for 2013 and 2014 were primarily for paying monthly administrative lead charges to the District and legal bills from Foster Pepper PLLC. Beginning in 2015, the Alliance provides wastewater transmission and treatment to two wholesale customers, the District and Battle Ground. The total service area for the two customers will include residents' within Clark County who are served by the District, Battle Ground and Ridgefield, serving approximately 105,000 retail customers. The Regional Service Charges, collected by the Alliance from its two wholesale customers, will pay for wastewater transmission and treatment, capital expansion and the administrative expenses of the Alliance.

**Economic Factors and 2015/2016 Budget**

The Alliance experienced positive operating incomes for both 2013 and 2014. Regional Service Charges exceeded expenses by \$209,582 in 2013 and \$52,368 in 2014. In 2015, the Alliance became fully operational and activity differs from the first two years. Effective January 1, 2015, net regional assets and debt with approximate values of \$129 million and \$22 million, respectively, transferred to the Alliance from Member agencies. The Alliance is responsible for maintaining the capital assets and servicing the debt on those assets. The Alliance has developed a capital plan to assist in forecasting of cash needs for the repair and replacement of the wastewater treatment infrastructure and construct new infrastructure when demanded.

**DISCOVERY CLEAN WATER ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2014 AND 2013**

**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  
COMPARATIVE STATEMENT OF NET POSITION**

	DECEMBER 31,	
	2014	2013
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 326,792	\$ 269,110
TOTAL ASSETS	326,792	269,110
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable	7,636	19,753
Due to other governments	56,668	39,775
TOTAL LIABILITIES	64,304	59,528
<u>NET POSITION</u>		
Unrestricted	262,488	209,582
TOTAL NET POSITION	\$ 262,488	\$ 209,582

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

**DISCOVERY CLEAN WATER ALLIANCE  
COMPARATIVE STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET POSITION**

	FOR THE YEAR ENDED DECEMBER 31,	
	2014	2013
<u>OPERATING REVENUES</u>		
Regional Service Charges	\$ 418,140	\$ 418,140
TOTAL OPERATING REVENUES	418,140	418,140
<u>OPERATING EXPENSES</u>		
Administrative lead services	311,150	101,105
Professional services	54,456	107,369
Miscellaneous	166	84
TOTAL OPERATING EXPENSES	365,772	208,558
<u>OPERATING INCOME</u>	52,368	209,582
<u>NON-OPERATING REVENUES</u>		
Interest and investment revenue	538	-
TOTAL NON-OPERATING REVENUES	538	-
CHANGE IN NET POSITION	52,906	209,582
TOTAL NET POSITION, January 1	209,582	-
TOTAL NET POSITION, December 31	\$ 262,488	\$ 209,582

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



**DISCOVERY CLEAN WATER ALLIANCE  
COMPARATIVE STATEMENT OF CASH FLOWS**

	FOR THE YEAR ENDED DECEMBER 31,	
	2014	2013
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from members	\$ 418,140	\$ 418,140
Cash payments to suppliers	360,996	149,030
NET CASH FROM OPERATING ACTIVITIES	57,144	269,110
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest	538	-
NET CASH FROM INVESTING ACTIVITIES	538	-
 <u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	57,682	269,110
 CASH AND CASH EQUIVALENTS, January 1	269,110	-
CASH AND CASH EQUIVALENTS, December 31	\$ 326,792	\$ 269,110

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

**DISCOVERY CLEAN WATER ALLIANCE  
COMPARATIVE STATEMENT OF CASH FLOWS**

	FOR THE YEAR ENDED DECEMBER 31,	
	2014	2013
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH</u>		
<u>PROVIDED (USED) BY OPERATING ACTIVITIES</u>		
Utility operating income	\$ 52,368	\$ 209,582
 <u>ADJUSTMENTS TO RECONCILE OPERATING INCOME</u>		
<u>TO NET FROM OPERATING ACTIVITIES</u>		
Increase (decrease) in accounts payable	(12,117)	19,753
Increase (decrease) in due to other governments	16,893	39,775
Total adjustments	4,776	59,528
NET CASH FROM OPERATING ACTIVITIES	\$ 57,144	\$ 269,110

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**

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 provided the foundation for the creation of the Alliance.

The accounting policies of the Alliance conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from GAAP):

**Reporting entity** - The Alliance is a municipal corporation and a political subdivision of the State of Washington. The Governmental Accounting Standards Board (GASB) has established GAAP, which qualifies a Special Purpose Government to be a primary government. The Alliance meets all three criteria:

1. An independent, appointed governing body, composed of one elected official from each member agency, that is directly accountable to its citizens within the Alliance;
2. A separate legal entity having legal autonomy to act within its statutory purpose; and
3. Financial accountability is focused on the independent elected governing body and such governing body has the autonomy, authority to approve and modify its budget or to set rates or charges to maintain its fiscal independence.

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's financial statements have been prepared in conformity with GAAP.

The Alliance uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

Of the eleven fund types established by GAAP, two are classified as proprietary funds. These are the enterprise funds and the internal service funds. The Alliance accounts for its operations within an enterprise fund, which is similar to a private business enterprise.

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

The Alliance is the result of several years of studies and planning involving, at one point, twelve local agencies. The purpose of the Alliance is to provide the County a regional wastewater utility with a long-term vision for growth and infrastructure needs. Ultimately, four of the twelve agencies (the County, the District, Battle Ground and Ridgefield) came together to form a regional partnership and completed an Interlocal Formation Agreement (IFA) in September of 2012. On January 4, 2013 this regional partnership took full form as an independent entity, Discovery Clean Water Alliance, under the empowerment of RCW 39.106.

Formation and transition activities occurred throughout 2013 and 2014, including drafting and adopting resolutions, drafting an administrative lead agreement, establishment of the financial and capital plan frameworks and development of the asset transfer, operator agreements commenced and development of the 2015/2016 budget and capital plan. The completion of these activities in 2014 allowed the Alliance to become fully operational on January 1, 2015. Now that the Alliance is fully operational, it has ownership of two wastewater treatment plants (with respective outfalls), two regional pump stations, three regional force mains and two gravity interceptors, and provides wastewater transmission and treatment services to approximately 105,000 residents of Clark County.

The Alliance distinguishes between operating revenues and expenses from non-operating ones. 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.

The Alliance uses the enterprise fund to capture the cost of providing its services by using the economic resources measurement focus. This means the Alliance's assets and liabilities are segregated between current and non-current, with its equity reported as changes in net position. The operating statement of the Alliance presents the revenues, expenses and the change in fund net position.

**Cash & Cash Equivalents** - The Alliance held 100% of its cash at Umpqua in 2013. Once the Alliance accumulated excess funds, the Alliance invested these funds in the Clark County Investment Pool (CCIP) per an adopted investment policy by the Alliance Board. All amounts to be invested in the either the CCIP or LGIP will be considered cash equivalents. The Alliance considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Receivables** - Accounts receivables represent member regional service charges for treatment services, which are recognized as earned.

**Due to Other Governments** - The Alliance currently contracts for administrative lead services with the District. This contract allows the Alliance to reimburse the District for salaries and benefits of District employee time spent on administrative lead services.

**Note 2 – Deposits & Investments**

**Cash and Cash Equivalents** - 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, 2014 and 2013 comply with the provisions of that code section and the Alliance’s investment policy adopted under Resolution 2013-12.

The Alliance deposits are entirely insured by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a municipal financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC) or through the Securities Investor Protection Corporation (SIPC).

For short term investments, cash equivalents, the Alliance utilizes the Clark County Investment Pool (CCIP). The fair value of the Alliance’s position in the pool is the same as the value of the pool shares. The CCIP is an unrated fund. 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 or any market value 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.

As of December 31, 2014 and 2013, the Alliance’s cash and cash equivalents are as follows:

	2014	2013
Cash and cash equivalents:		
Bank depository and checking accounts	\$ 106,254	\$ 269,110
Clark County investment pool	220,538	-
Total cash and cash equivalents	\$ 326,792	\$ 269,110

Custodial credit risk is the risk that in event of a failure of the counterparty to a financial transaction the Alliance would not be able to recover the value of the funds 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.

### Note 3 – 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 68 members. The Pool’s fiscal year is November 1st through October 31st.

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: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All 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:

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
<b>Property Loss:</b>			
Buildings and Contents	\$1,000 - \$10,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$75,000,000 (\$25,000,000 dedicated to Alderwood and \$50,000,000 shared by all members)
Terrorism	\$1,000 - \$10,000	\$25,000 Primary layer	\$100,000,000 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-\$10,000	\$25,000	\$10,000,000
<b>Liability:</b>			
Commercial General Liability	\$1,000 - \$10,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$10,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$10,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$10,000	\$200,000	\$10,000,000
<b>Other:</b>			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$10,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$25,000	\$0
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. If the stated deductible is on a percentage basis, 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 \$100,000 and where applicable the dollar amount of the business interruption loss during the policy’s required 8 hour waiting period.			

### **Note 3 – 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, 2015, written notice must be in possession of the Pool by April 30, 2015). 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 Arcadia Claims Services.

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.

There have been no claims filed by the Alliance for the years 2014 or 2013; therefore, no settlements have exceeded insurance coverage in each of the past two years.

#### Note 4 – Joint Venture/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 2013, three of the member agencies, the District, Battle Ground, and Ridgefield, paid monthly Regional Service Charges to the Alliance and in 2014, with the transfer of the Ridgefield Collection system to Clark Regional Wastewater District, two of the member agencies, the District and Battle Ground, paid monthly Regional Service Charges to the Alliance. Regional Service Charges paid in 2013 and 2014 funded Alliance transition activities. These Regional Service Charges are based on the 2013-2014 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 administration 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 2015-2016 biennial budgets and Operator Agreements between the Alliance and County and the Alliance and Ridgefield.

During 2014 and 2013 the Alliance received, by member, the following in Regional Service Charges:

	2014	2013
Clark Regional Wastewater District	\$ 325,427	\$ 306,725
City of Battle Ground	\$ 92,712	\$ 92,712
City of Ridgefield	\$ -	\$ 18,702
Total Regional Service Charges	<u>\$ 418,139</u>	<u>\$ 418,139</u>

The Alliance was billed \$171,625 in 2014 and \$79,848 in 2013 from the District for administrative lead services provided, as well as reimbursing the District \$139,525 in 2014 and \$21,257 in 2013 for professional consulting, IT support, insurance and various utilities expenses incurred by the District on behalf of the Alliance.

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, 2013.

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



## Note 5 – Subsequent Events

Study efforts conducted between 2009 and 2012 strove to identify a framework where all parties charged with owning, operating or using wastewater treatment services could collectively make decisions together on the delivery of those services to the public within Clark County. This opportunity to jointly own and jointly manage regional infrastructure, relied on by vested parties, was an underlying theme that future members came to support, to manage both long-term costs and long-term capacity needs.

Four local governments, the County, the District, Battle Ground and Ridgefield, via interlocal agreement, formulated a new entity whereby, as equity partners, they could have a direct voice and vote in the decisions that ultimately they have to pass on to their ratepayers. The four members, as owners and/or users of the Salmon Creek Wastewater Management System and Ridgefield Treatment Plants, recognized the benefit over the long term of integrating the two systems into a single operating entity. This resulted in the formation of Discovery Clean Water Alliance in January 2013.

Over the next two years, 2013 and 2014, work was ongoing to bring the Alliance operational as a regional wastewater transmission and treatment provider. Asset transfer agreements were signed in 2013 and 2014, resulting in the respective debt and assets of the treatment plants transferring to the Alliance as of January 1, 2015.

This transition is defined in GASB 69 as a “transfer of operations” type of government combination. Accounting for the transfer of the actual assets and operations of the assets, treatment plants, pump stations and force mains, falls under this guidance. The transfer of debt held on those assets by the sole capacity right owners of the treatment plants falls under the guidance of GASB 62.

The Alliance will ensure compliance with both GASB 69 and GASB 62 when accounting for the transfer of operations, assets and debt within the 2015 financial statements. The Alliance and its Members are working closely together to ensure accuracy of all financial data amongst the governmental entities. The Alliance estimates increasing assets and liabilities and recognizing a net gain on these transfers, in total, as follows:

Transferred Assets (Net)	
Cash Reserves	\$ 2,675,447
Total Capital Assets	\$ 126,232,649
Total Transferred Assets (Net)	<u>\$ 128,908,096</u>
Transferred Liabilities	
Total Current Liabilities	\$ 2,093,125
Total Long Term Liabilities	\$ 21,005,626
Total Liabilities Transferred	<u>\$ 23,098,751</u>
Net Position of Transferred Treatment Operation	
Net Investment (GASB 62/69)	\$ 105,809,345

## 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.

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