



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Discovery Clean Water Alliance

Clark County

For the period January 1, 2015 through December 31, 2015

Published May 26, 2016

Report No. 1016703





Washington State Auditor's Office

May 26, 2016

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,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style.

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, 2015 through December 31, 2015**

Board of Directors
Discovery Clean Water Alliance
Vancouver, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Discovery Clean Water Alliance, Clark County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements, and have issued our report thereon dated May 12, 2016. As discussed in Note 2 to the financial statements, during the year ended December 31, 2015, the Alliance implemented Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operations*.

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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 12, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Discovery Clean Water Alliance Clark County January 1, 2015 through December 31, 2015

Board of Directors
Discovery Clean Water Alliance
Vancouver, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Discovery Clean Water Alliance, Clark County, Washington, as of and for the year ended December 31, 2015, 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, 2015, 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 2 to the financial statements, in 2015, the Alliance adopted accounting guidance, Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operations*. 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 on pages 10 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the

information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2016 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 "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 12, 2016

FINANCIAL SECTION

**Discovery Clean Water Alliance
Clark County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Revenues, Expenses, and Changes in Fund Net Position – 2015

Statement of Cash Flows – 2015

Notes to the Financial Statements – 2015

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

INTRODUCTION

Management of the 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, 2015.

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 represented the first year of the Alliance's existence as a municipal corporation and the first year of operation. 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 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 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 of its activities.

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

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* displays the change in the Alliance's net position during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs regardless of the timing of related cash flows.

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

Financial Highlights

- In 2015, the Alliance began wastewater transmission and treatment services with the transfer of operations from four other governments. Assets in the amount of \$131.6 million and liabilities of \$24.4 million were received for an increase in net position of approximately \$107.2 million.
- The Alliance issued \$8,655,000 in revenue bonds, to refund the District's 2005 revenue bonds in December 2015 and \$3,300,000 to finance reconstruction and repair of existing systems.
- Regional Service Charges of \$8,848,933 were billed to Battle Ground and the District in 2015. This constitutes all operating revenues of the Alliance.
- The Alliance was charged \$4.2 million by other governments for treatment plant operator services.

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

Assets, Liabilities and Net Position

December 31	2015	2014	2015 to 2014 Change	%
<i>Assets</i>				
Current and other assets	\$ 10,402,029	\$ 326,792	\$ 10,075,237	3083%
Capital assets	124,086,576	-	124,086,576	
Total assets	134,488,605	326,792	134,161,813	41054%
<i>Liabilities</i>				
Long-term liabilities	34,181,137	-	\$ 34,181,137	
Other liabilities	634,027	64,304	569,723	886%
Total liabilities	34,815,164	64,304	34,750,860	54042%
<i>Net position</i>				
Net investment in capital assets	94,061,827	-	\$ 94,061,827	
Restricted	1,195,500		\$ 1,195,500	
Unrestricted	4,416,114	262,488	4,153,626	1582%
Total net position	\$ 99,673,441	\$ 262,488	\$ 99,410,953	

Because this is the first year of operation for the Alliance, the increases between 2015 and 2014 are significant. Current and other assets increased by over \$10.1 million due to the addition of unrestricted cash and cash equivalents being accumulated for operations and reserves, unspent bond proceeds, and contracts receivable from Operators. Other liabilities have increased by approximately \$570,000 due to interest payable associated with debt transferred from Member governments and increased accounts payable, a natural increase due to the increased activity in the first year of operation. Capital assets and long term liabilities have increased from the transfer of operations.

Net position of \$1,195,500 is restricted for debt service reserves per bond covenants. The Alliance's capital assets are used to provide services to its Members. Consequently, these assets are not available for future spending and therefore restricted in nature.

The total net position has increased over 2,000% with the transfer of operations from the four governments that are Members of the Alliance. Net position has increased by approximately \$107.2 million from transfers of capital assets from Member governments, net of related debt that is still outstanding. For further explanation of the capital asset transfers and related liabilities, see below.

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

Capital Assets

Investment in capital assets includes land, buildings, pump stations, transmission lines, machinery and equipment. The Alliance's total net capital assets as of December 31, 2015 were \$124.1 million. This increase is due to the transfer of operations from Clark County, Battle Ground and Ridgefield, offset by normal depreciation and amortization. Major capital assets events during the fiscal year included the following:

- The Alliance increased capital assets by a gross total of \$127.2 million in the form of transmission lines, pump stations, treatment plants, equipment and construction in progress.
- Capital contributions were received from Ridgefield of \$269,818, consisting of an alkalinity adjustment system for the Ridgefield treatment plant.
- For further explanations of the capital asset activity of the Alliance, please refer to Note 4, Capital Assets (pages 28-29).

Long-Term Liabilities

- On September 2, the Alliance issued \$11,955,000 in new revenue bonds to finance the defeasance of the District's 2005 revenue bonds (\$8,655,000) and for reconstruction and repair of existing systems (\$3,300,000). The first principal payment is due in 2016.
- On January 1, debt of \$24.4 million was transferred from the District, Battle Ground and Ridgefield.
- Loans payable of \$20,981,137 at year end include the following:
 - ❑ \$19,087,186 for PWTF loans granted for the construction of the Salmon Creek Treatment Plant
 - ❑ \$627,648 on the SRF loan used for Phase IV construction of the Salmon Creek Wastewater Management System
 - ❑ \$1,266,303 on the SRF loan used for the Ridgefield Treatment Plant upgrade
 - ❑ \$1,245,000 for contracts payable to Ridgefield for General Obligation bonds related to the Ridgefield sewer system
- Please refer to Note 6, Long-Term Liabilities on pages 32-35, for more detailed information regarding long-term debt activity.

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

Revenues and Expenses

December 31	2015	2014	2015 to 2014 Change	%
REVENUES				
Regional Service Charges	\$ 8,848,933	\$ 418,140	\$ 8,430,793	2016%
Non-operating - miscellaneous	-	538	(538)	-100%
Non-operating - interest earnings	15,616		15,616	
Total revenue	<u>8,864,549</u>	<u>418,678</u>	<u>15,616</u>	
EXPENSES				
Operating expenses	7,674,801	365,772	7,309,029	1998%
Non-operating - interest expense	406,117	-	406,117	
Total expenses	<u>8,080,918</u>	<u>365,772</u>	<u>406,117</u>	111%
EXCESS (DEFICIENCY) BEFORE SPECIAL ITEMS	783,631	52,906	730,725	1381%
SPECIAL ITEMS	<u>98,627,322</u>	<u>-</u>	<u>98,627,322</u>	
CHANGE IN NET POSITION	99,410,953	52,906	99,358,047	187801%
NET POSITION, January 1	<u>262,488</u>	<u>209,582</u>	<u>52,906</u>	25%
NET POSITION, December 31	<u>\$ 99,673,441</u>	<u>\$ 262,488</u>	<u>\$ 99,410,953</u>	

- The Alliance received \$8,848,933 in Regional Service Charge revenues from two Members; the District and Battle Ground. These Regional Service Charges represented 100% of the Alliance's operating revenues in 2015.
- Operating expenses in 2015 totaled \$7,674,801, of which 50.5% represents treatment plant operations. Depreciation represents 42.2% of total expenses. As assets were transferred to the Alliance on January 1, 2015, 2015 is the first year in which depreciation expense is applicable.
- The Alliance only operated on a limited basis in 2013 and 2014. It became fully operational as of January 1, 2015, so all categories of revenues and expenses increased between 2014 and 2015.
- The Alliance had two special items unique to 2015. Capital assets net of related debt of approximately \$107.2 million was transferred to the Alliance from Members. The Alliance also issued new revenue bonds to finance the refunding of the District's 2005 revenue bonds and for reconstruction and repair of existing systems. The bond issuance financing the District's refunding resulted in an approximately \$8.6 million special item.

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

Economic Factors and 2015/2016 Budget

Overall, the Alliance experienced a tremendous increase in net position during 2015. Regional Service Charges exceeded operating expenses by \$1,174,132. 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 \$131.6 million and \$24.4 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 existing wastewater treatment infrastructure and construction of new infrastructure when demanded.

Requests for Information

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

DISCOVERY CLEAN WATER ALLIANCE
STATEMENT OF NET POSITION
DECEMBER 31, 2015

	2015
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 4,130,729
Prepaid expenses	<u>508,570</u>
Total current assets	<u>4,639,299</u>
NONCURRENT ASSETS	
Contracts receivable	1,515,927
Restricted cash and cash equivalents	4,246,803
Capital assets not being depreciated:	
Land	130,852
Construction work in progress	<u>732,693</u>
Total capital assets, not being depreciated	<u>863,545</u>
Capital assets being depreciated:	
Improvements other than buildings	126,356,822
Equipment	109,104
Less: accumulated depreciation	<u>(3,242,895)</u>
Total capital assets being depreciated	<u>123,223,031</u>
Total noncurrent assets	<u>129,849,306</u>
Total assets	<u>134,488,605</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	395,605
Interest payable	98,507
Accounts payable from restricted assets	139,915
Sewer revenue bonds, current	770,000
Loans payable, current	2,022,577
Contracts payable, current	<u>100,000</u>
Total current liabilities	<u>3,526,604</u>
NONCURRENT LIABILITIES	
Sewer revenue bonds, long term	11,185,000
Loans payable, long term	18,958,560
Contracts payable, long term	<u>1,145,000</u>
Total noncurrent liabilities	<u>31,288,560</u>
Total liabilities	<u>34,815,164</u>
NET POSITION	
Net investment in capital assets	94,061,827
Restricted	1,195,500
Unrestricted	<u>4,416,114</u>
Total net position	<u>\$ 99,673,441</u>

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, 2015**

	<u>2015</u>
OPERATING REVENUES	
Regional Service Charges	\$ 8,848,933
Total utility operating revenues	<u>8,848,933</u>
OPERATING EXPENSES	
Administrative Lead services	348,531
Professional services	11,725
Treatment plant operations	3,879,041
Insurance	186,560
Miscellaneous	6,049
Depreciation	<u>3,242,895</u>
Total operating expenses	<u>7,674,801</u>
OPERATING INCOME (LOSS)	<u>1,174,132</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	15,616
Interest expense and fiscal costs	<u>(406,117)</u>
Total non-operating revenue (expenses)	<u>(390,501)</u>
INCOME BEFORE SPECIAL ITEMS	783,631
SPECIAL ITEM - DEFEASED DISTRICT BOND	(8,599,044)
SPECIAL ITEM - TRANSFER OF OPERATIONS	<u>107,226,366</u>
CHANGE IN NET POSITION	99,410,953
TOTAL NET POSITION, January 1	<u>262,488</u>
TOTAL NET POSITION, December 31	<u><u>\$ 99,673,441</u></u>

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, 2015

	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 8,694,120
Cash payments to suppliers	<u>(5,019,782)</u>
Net cash from operating activities	<u>3,674,338</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds received from related parties for payment of debt	1,059,244
Principal paid on non-capital debt	(980,723)
Interest paid on non-capital debt	<u>(78,521)</u>
Net cash from noncapital financing activities	<u>-</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	3,280,437
Principal paid on long-term debt	(1,058,369)
Interest paid on long-term debt	(172,278)
Acquisition and construction of capital assets	(592,778)
Capital contributed during transfer	<u>2,903,774</u>
Net cash from capital and related financing	<u>4,360,786</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>15,616</u>
Net cash from investing activities	<u>15,616</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,050,740
 CASH AND CASH EQUIVALENTS, January 1	<u>326,792</u>
CASH AND CASH EQUIVALENTS, December 31	<u><u>\$ 8,377,532</u></u>
 Cash and cash equivalents	4,130,729
Restricted cash and cash equivalents	<u>4,246,803</u>
CASH AND CASH EQUIVALENTS, December 31	<u><u>8,377,532</u></u>

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, 2015**

	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Utility operating income (loss)	\$ 1,174,132
Adjustments to reconcile operating income to net from operating activities	
Depreciation and amortization expense	3,242,895
(Increase) decrease in prepaid expenses	(508,570)
Increase (decrease) in accounts payable	387,969
(Increase) decrease in contracts receivable	(410,607)
Increase (decrease) in due to other governments	(56,668)
Noncash principal and interest reductions of contracts payable	(154,813)
Total adjustments	<u>2,500,206</u>
Net cash from operating activities	<u><u>\$ 3,674,338</u></u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Capital assets from transfer of operations	126,472,626
Debt assumed from transfer of operations	(22,039,506)
Contract payable from transfer of operations	(1,340,000)
Debt issued to defease bonds	(8,655,000)
Debt proceeds provided to trustee	8,599,045
Contract receivable from transfer of operations	1,229,473
Bond issuance costs paid by trustee	74,679
Contributions of capital assets from operator	124,153
Contract payments made by member	154,813

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 providing 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 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 Clark 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, commencement of Operator Agreements 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 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.

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 acts as its own Treasurer. The Alliance invested funds in excess of the operating reserve in the Clark County Investment Pool (CCIP) per resolutions and an investment policy adopted by the Alliance Board. All amounts invested in the CCIP are considered cash equivalents. The Alliance considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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

Restricted Assets - These accounts contain reserves for debt service and unspent bond proceeds restricted for capital use. Certain proceeds of revenue bonds, as well as certain reserves set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

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

Specific debt service reserve requirements are described in Note 6, Long Term Liabilities (pages 32-35). The restricted assets of the Alliance are composed of the following:

	<u>2015</u>
Cash and investments - Unspent bond proceeds, capital projects	\$ 3,051,303
Cash and investments - Debt service reserve	<u>1,195,500</u>
Total restricted cash and cash equivalents	<u>\$ 4,246,803</u>

Capital Assets – Capital assets are stated at historical cost. Major additions, improvements and replacements are capitalized if the Alliance’s capitalization threshold is met – a purchase or construction cost greater than \$5,000 and with a useful life of two or more years. Estimating the useful lives of capital assets requires the exercise of management judgment and actual lives may differ from these estimates. Changes to these initial estimates are made when appropriate.

Depreciation is computed on capital assets when the assets are placed into service using the straight-line method over their estimated useful life as follows:

Buildings	20 - 50 years
Improvements other than buildings	20 - 50 years
Machinery, furniture and equipment	5 - 15 years

See Note 4, Capital Assets (pages 28-29) for further information.

Due to or from 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. The Alliance also contracts with Members to provide treatment plant operations services. Members of the Alliance pay monthly Regional Service Charges to the Alliance.

Long-Term Debt – See Note 6, Long Term Liabilities (pages 32-35).

Note 2 – Accounting and Reporting Changes / Transfer of Operations

In 2013 and 2014, work was ongoing to bring the Alliance operational as a regional wholesale wastewater transmission and treatment provider. Asset transfer agreements were signed in 2013 and 2014, resulting in the Salmon Creek and Ridgefield treatment plants, related assets and debt transferring to the Alliance as of January 1, 2015. The value of the assets and debt transferred to the Alliance was at the carrying value of the transferring governments. Accordingly, the Alliance has implemented GASB 69, *Government Combinations and Disposals of Government Operations*. The transfer of assets and operations of the assets, treatment plants, pump stations and force mains, and associated debt, falls under this guidance.

As a result of the transfer, the Alliance recognized assets, liabilities and net position as follows:

	CRWWD	Ridgefield	Battle Ground	Clark County	Total
Transferred assets (Net)					
Cash reserves	\$ -	\$ 1,103,774	-	\$ 1,800,000	\$ 2,903,774
Cash for Member accrued					
Portion of debt service	\$ 562,305	\$ 94,217	402,722	\$ -	1,059,244
Contract receivable		339,943	-	889,529	1,229,472
Capital assets					
Land	-	-	-	130,852	130,852
Construction in progress	-	145,665	-	-	145,665
Treatment plant and facilities	-	4,910,643	-	72,779,248	77,689,891
Pump stations	-	-	-	18,433,180	18,433,180
Transmission lines	-	-	1,441,155	28,522,778	29,963,933
Equipment	-	25,550		83,555	109,105
Total capital assets	-	5,081,858	1,441,155	119,949,613	126,472,626
Total transferred assets (Net)	<u>\$ 562,305</u>	<u>\$ 6,619,792.27</u>	<u>\$ 1,843,877</u>	<u>\$ 122,639,142</u>	<u>\$ 131,665,116</u>
Transferred liabilities					
Loans payable	\$ 12,459,375	\$ 1,363,266	\$ 8,216,865	\$ -	\$ 22,039,506
Contracts Payable		\$ 1,340,000			\$ 1,340,000
Loans payable - Member					
Accrued principal & interest	\$ 562,305	\$ 94,217	\$ 402,722	\$ -	1,059,244
Total long term liabilities	13,021,680	2,797,483	8,619,587	-	24,438,750
Total liabilities transferred	<u>\$ 13,021,680</u>	<u>\$ 2,797,483</u>	<u>\$ 8,619,587</u>	<u>-</u>	<u>24,438,750</u>
Net position of transferred operation					
Net investment in capital assets	\$ (13,021,680)	\$ 2,284,374.73	\$ (7,178,431.60)	\$ 119,949,613	\$ 102,033,876
Unrestricted net position	562,305	1,537,934.27	402,722	2,689,529	5,192,490
Total net position	<u>\$ (12,459,375)</u>	<u>\$ 3,822,309</u>	<u>\$ (6,775,710)</u>	<u>\$ 122,639,142</u>	<u>\$ 107,226,366</u>

As a result of these transactions, the Alliance recognized a special item in the statement of activities in the amount of \$107,226,366.

Note 3 – 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, 2015 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 (WPDP) 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, 2015, the Alliance’s cash and cash equivalents are as follows:

Cash and cash equivalents:	
Bank depository and checking accounts	\$ 1,411,378
Clark County investment pool	<u>6,966,154</u>
Total cash and cash equivalents	<u>\$ 8,377,532</u>

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 4 – Capital Assets

Capital assets are stated at historical cost. Whenever historical cost is not known, assets are recorded based upon engineering study estimates. Projects constructed or donated by developers, local governments or customers are stated at estimated fair value at the time contributed.

Major additions, improvements and replacements are capitalized if the Alliance’s capitalization threshold is met – a purchase or construction cost greater than \$5,000 and with a useful life of two or more years. Normal maintenance and repairs are charged to operations as incurred. Gains or losses realized from the sale or disposition of capital assets are reflected in the Statement of Revenues, Expenses and Changes in Fund Net Position.

Estimating the useful lives of capital assets requires the exercise of management judgment and actual lives may differ from these estimates. Changes to these initial estimates are made when appropriate.

Depreciation is computed on capital assets when the assets are placed into service using the straight-line method over their estimated useful life as follows:

Buildings	20 - 50 years
Improvements other than buildings	20 - 50 years
Machinery, furniture and equipment	5 - 15 years

The Alliance records the preliminary project costs, as well as construction disbursements, in a construction work-in-progress account (CWIP) until final completion is determined before transferring these costs to a utility plant in-service account.

In 2015, capital assets were transferred to the Alliance from Battle Ground, Clark County and Ridgefield. In addition, the Alliance incurred \$732,693 in CWIP project costs (i.e. treatment plant additions, and repairs and replacements).

The following schedule of capital assets is recorded at historical costs with any related additions due to purchases or utility plant brought into service. Capital assets activity for the year ended December 31, 2015, is as follows:

	Balance Jan. 1, 2015	Additions & Transfers	Retirements & Transfers	Balance Dec. 31, 2015
CAPITAL ASSETS - NONDEPRECIABLE:				
Land and land rights	\$ -	\$ 130,852	\$ -	\$ 130,852
Construction work-in-progress	-	878,358	145,665	732,693
Total capital assets - nondepreciable	-	1,009,210	145,665	863,545
CAPITAL ASSETS - DEPRECIABLE:				
Collection and transmission system	-	29,963,933	-	29,963,933
Buildings and facilities	-	77,959,709	-	77,959,709
Pumping stations	-	18,433,180	-	18,433,180
Machinery, furniture and equipment	-	109,104	-	109,104
Total capital assets - depreciable	-	126,465,926	-	126,465,926
LESS ACCUMULATED DEPRECIATION:				
Collection and transmission system	-	(726,584)	-	(726,584)
Buildings	-	(2,073,590)	-	(2,073,590)
Pumping stations	-	(415,565)	-	(415,565)
Machinery, furniture and equipment	-	(27,156)	-	(27,156)
Total accumulated depreciation	-	(3,242,895)	-	(3,242,895)
Total capital assets - depreciable, Net	-	123,223,031	-	123,223,031
Total capital assets, Net	\$ -	\$ 124,232,241	\$ 145,665	\$ 124,086,576

Note 5 – 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 66 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
Property Loss:			
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 (\$50,000,000 shared by all members and \$25,000,000 dedicated to Alderwood)
Terrorism	\$1,000 - \$25,000	\$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-\$25,000	\$25,000	\$10,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$25,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$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.			

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, 2016, written notice must be in possession of the Pool by April 30, 2016). 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 and Adjusters Northwest.

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 2015, 2014 or 2013; therefore, no settlements have exceeded insurance coverage in each of the past three years.

Note 6 – Long-Term Liabilities

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 2025. In 2015, the Alliance paid \$72,115 in 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, 2015:

Sewer Revenue Bonds	Bond Description	Notice of Completion	Maturity Date	Approved Bond Amount	Balance	Interest Rate
New Bond Issuance	Refunding 2005 Bond	September 2015	12/1/2025	\$ 8,655,000	\$ 8,655,000	2.4%
New Bond Issuance	R&R	September 2015	12/1/2025	\$ 3,300,000	\$ 3,300,000	2.4%
					<u>\$ 11,955,000</u>	

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

Year	2015 Sewer Revenue Bonds		Total Debt Service
	Principal	Interest	
2016	770,000	291,702	1,061,702
2017	795,000	272,914	1,067,914
2018	1,195,000	253,516	1,448,516
2019	1,225,000	224,358	1,449,358
2020	1,245,000	194,468	1,439,468
2021-2025	6,725,000	500,322	7,225,322
Total	<u>\$ 11,955,000</u>	<u>\$ 1,737,280</u>	<u>\$ 13,692,280</u>

The Alliance must meet reserve requirements for the bonds. The lessor of (1) maximum annual debt service, (2) 1.25 times the average annual debt service, or (3) 10% of original bond proceeds, in the debt service account in compliance with bond covenants. At December 31, 2015, \$1,195,500 has been set aside to meet this requirement.

The Alliance is also required by bond covenants to maintain debt service coverage of its revenue bonded debt of a minimum of the sum of: (1) 1.10 times the annual debt service on all outstanding bonds during the fiscal year, and (2) any amount required to be deposited in the debt service reserve account during that year. Debt service coverage requirements for the year ended December 31, 2015 were met.

Advance and Current Refunding - The Alliance bonds of \$8,655,000 for refunding the callable portions of the District's 2005 bonds were issued to save interest costs as well as to transfer the debt legally from the District to the Alliance. This amount is reported on the Statement of Revenues, Expenses and Changes in Fund Net Position as a \$8,599,044 special item – debt issuance. The \$55,956 difference in bond issuance amount and the special item represents bond issuance costs. The refunding will reduce the Alliance's total debt service payments over the next ten years by \$1,080,723. The economic gain (net present value savings) of this bond issue is \$949,110.

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

The following is a schedule of PWTF loans containing a description of each loan, its use, and outstanding balance as of December 31, 2015:

	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	421,054	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-04-691-033	2004	7/1/2024	10,000,000	4,830,495	0.5%
Salmon Creek Treatment Plant - Preconstruction (Phase IV)	PW-05-691-PRE-116	2005	7/1/2025	1,000,000	526,316	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PC-08-951-009	2008	7/1/2028	8,000,000	5,473,684	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-05-691-003	2005	6/1/2025	10,000,000	5,513,416	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-06-962-005	2006	6/1/2026	\$ 4,000,000	\$ 2,322,222	0.5%
					<u>\$ 19,087,187</u>	

In 2015, the Alliance paid \$961,445 (\$912,745 principal and \$48,699 interest) on PWTF loans. The annual debt service requirements for the PWTF loans payable are as follows:

State of Washington - Public Works Trust Fund Loans Summary			
Year	Principal	Interest	Total Payments
2016	\$ 1,825,490	\$ 95,436	\$ 1,920,926
2017	1,825,490	86,308	1,911,799
2018	1,825,490	77,181	1,902,671
2019	1,825,490	68,054	1,893,544
2020	1,825,490	58,926	1,884,416
2021-2025	8,485,467	157,982	8,643,449
2026-2028	1,474,269	13,688	1,487,957
Total	<u>\$ 19,087,187</u>	<u>\$ 557,575</u>	<u>\$ 19,644,762</u>

In 2006, the District was granted a \$1,000,000 Washington State Revolving Fund (SRF) loan which was fully drawn and expended in 2007 on construction of 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 for the City's treatment plant upgrade. See Note 2, Accounting and Reporting Changes/Transfer of Operations (page 26).

The following is a schedule of SRF loans containing a description of each loan, its use, and outstanding balance as of December 31, 2015:

	Loan Number	Notice of Completion	Maturity Date	Approved Loan Amount	Balance	Interest Rate
Salmon Creek Treatment Plant - Construction (Phase IV)	L0700014	March 2007	1/1/2027	\$ 1,000,000	\$ 627,648	2.6%
Ridgefield Treatment Plant Upgrade	L9800042	November 2002	1/1/2022	2,972,860	<u>1,266,303</u>	4.4%
					<u>1,893,951</u>	

Debt service on SRF loans in 2015 was \$197,928 (\$145,624 principal and \$52,304 interest). The annual debt service requirements for these SRF loans payable are as follows:

Year	State Revolving Fund						
	Salmon Creek Treatment Plant Construction		Ridgefield Treatment Plant Upgrade		Total		Total Payments
	Principal	Interest	Principal	Interest	Principal	Interest	
2016	\$ 24,809	\$ 8,204	\$ 172,279	\$ 53,843	\$ 197,088	\$ 62,047	\$ 259,135
2017	50,594	15,430	179,942	46,179	230,536	61,609	292,145
2018	51,926	14,099	187,947	38,175	239,873	52,274	292,147
2019	53,292	12,733	196,307	29,814	249,599	42,547	292,146
2020	54,694	11,331	205,040	21,082	259,734	32,413	292,147
2021-2025	295,829	34,295	324,788	14,395	620,617	48,690	669,307
2026-2027	96,504	2,534	-	-	96,504	2,534	99,038
Total	<u>\$627,648</u>	<u>\$ 98,626</u>	<u>\$1,266,303</u>	<u>\$203,488</u>	<u>\$1,893,951</u>	<u>\$302,114</u>	<u>\$ 2,196,065</u>

Contracts – City of Ridgefield issued bonds in 2006, a portion of which were used to expand their wastewater treatment plant. This debt is a general fund obligation of Ridgefield and not legally transferable to the Alliance. The Alliance and Ridgefield signed a Treatment Plant and Outfall Transfer Agreement in December 2013. As part of this agreement, the portion of Ridgefield's 2006 Bonds and any bonds refunding the 2006 Bonds, that are equal to the original share of the 2006 Bond proceeds that were allocated to finance costs of the wastewater treatment plant expansion, are considered "Alliance Assumed Obligations." In 2015, as part of this transfer of operations, the Alliance recorded a long-term contract payable to represent its liability to the City of Ridgefield to make debt service payments on the 2006 bonds. See the table below for detailed amounts of this liability.

Changes in long-term liabilities as a summary for the year ended December 31, 2015:

	Balance Jan. 1, 2015	Additions	Reductions	Balance Dec. 31, 2015	Due Within One Year
Loans payable	-	22,039,506	1,058,368	20,981,138	2,022,577
Revenue bonds	-	11,955,000	-	11,955,000	770,000
Contracts payable	-	1,340,000	95,000	1,245,000	100,000
Total long-term liabilities	<u>\$ -</u>	<u>\$ 35,334,506</u>	<u>\$ 1,153,368</u>	<u>\$ 34,181,138</u>	<u>\$ 2,892,577</u>

Note 7 –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 2015, two of the Member agencies, the District and Battle Ground, paid monthly Regional Service Charges to the Alliance. Regional Service Charges paid in 2015 funded Alliance wastewater treatment operations. These Regional Service Charges were based on the 2015-2016 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 2015 the Alliance received, by Member, the following in Regional Service Charges:

	2015
Clark Regional Wastewater District	\$ 6,583,000
City of Battle Ground	2,265,933
Total Regional Service Charges	<u>\$ 8,848,933</u>

The Alliance was billed \$531,250 in 2015 from the District. This amount represents \$239,799 for Administrative Lead services (staff time) provided, as well as expenses of \$291,451 for professional consulting, IT support, insurance and various utilities expenses incurred by the District on behalf of the Alliance.

The Alliance contracts with two of its Members for treatment plant operations services. In 2015, the Alliance was billed \$3,673,308 by Clark County and \$616,339 by Ridgefield as contract Operators.

The County, the District, Battle Ground and Ridgefield all last received financial and accountability audits from the Washington State Auditor's Office for the fiscal year ended December 31, 2014.

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>.

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Contact information for the State Auditor's Office	
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Main telephone	(360) 902-0370
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