Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Clark Regional Wastewater District

Clark County

For the period January 1, 2016 through December 31, 2016

Published June 22, 2017

Report No. 1019317

Office of the Washington State Auditor
Pat McCarthy

June 22, 2017

Board of Commissioners
Clark Regional Wastewater District
Vancouver, Washington

Report on Financial Statements

Please find attached our report on the Clark Regional Wastewater District's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Pat McCarthy

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*

Clark Regional Wastewater District
Clark County
January 1, 2016 through December 31, 2016

Board of Commissioners
Clark Regional Wastewater District
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 Clark Regional Wastewater District, Clark County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 13, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 District's financial statements are free from material misstatement, we performed tests of the District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

June 13, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clark Regional Wastewater District
Clark County
January 1, 2016 through December 31, 2016

Board of Commissioners
Clark Regional Wastewater District
Vancouver, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Clark Regional Wastewater District, Clark County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District'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 District'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 District'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 Clark Regional Wastewater District, as of December 31, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 15, information on postemployment benefits other than pensions on page 52 and pension plan information on pages 53 through 57 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 June 13, 2017 on our consideration of the District'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 District's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

June 13, 2017

FINANCIAL SECTION

Clark Regional Wastewater District
Clark County
January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

CLARK REGIONAL WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

INTRODUCTION

As management of the Clark Regional Wastewater District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

The following Management's Discussion and Analysis is intended to serve as an introduction to the District'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. Please refer to the accompanying Notes to the Financial Statements regarding capital asset and long-term liability activity, which can be found on pages 27-55.

The District is not legally required to adopt a budget, however, does so as a measure of monitoring revenues and controlling expenses. The Board of Commissioners adopts an annual budget and uses it as a financial plan for the District. The District has not reported budgetary comparison schedules herein as required supplementary information.

The District's financial statements present a Special Purpose District organized under the laws of the State of Washington, Revised Code of Washington (RCW), Title 57, to provide sanitary sewer service to specific areas in Clark County, Washington. The District is not a segment of any other local government nor is it a component unit thereof. The financial statements are presented in a manner similar to a private-sector business.

The District 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. sewer service). The District 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; as such, the District uses the enterprise fund to account for all its activities.

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

The *Statement of Revenues, Expenses and Changes in Fund Net Position* display the change in the District'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.

CLARK REGIONAL WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

Financial Highlights

- For 2016, the assets of the District exceeded its liabilities by $189,626,995. Of this amount, $31,028,247 is classified as unrestricted and may be used to meet the District's ongoing obligations. The District has restricted funds of $541,765 at December 31, 2016 for debt service reserve.

- The District's change in net position was $5,777,712 for 2016. The 2016 increase is primarily a result of capital contributions from developers and connection charges totaling $14,711,919. Additionally, the District has recorded a prior period adjustment reducing beginning net position by $802,010, leading to a total change in net position from 2015 to 2016 of $4,975,702 (see Note 13 for further details).

- In 2016, the District made regular principal payments on its outstanding sewer revenue bonds of $525,289 and PWTF loans of $1,253,033.

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

December 31	2016	2015	2016 to 2015 Change	%
Assets				
Current and other assets	$ 43,253,905	$ 41,123,278	$ 2,130,627	5.2%
Capital assets (net of depreciation) and construction work in progress	179,865,064	177,778,137	2,086,927	1.2%
Total assets	223,118,969	218,901,415	4,217,554	
Deferred Outflows	634,345	368,348	265,997	72.2%
Liabilities				
Long-term liabilities	26,867,336	27,812,301	(944,965)	-3.4%
Other liabilities	7,194,661	6,355,303	839,358	13.2%
Total liabilities	34,061,997	34,167,604	(105,607)	
Deferred Inflows	64,322	450,866	(386,544)	-85.7%
Net position				
Net investment in capital assets	158,056,983	154,191,734	3,865,249	2.5%
Restricted - debt service reserve	541,765	541,765	-	0.0%
Unrestricted	31,028,247	29,917,794	1,110,453	3.7%
Total net position	$ 189,626,995	$ 184,651,293	$ 4,975,702	

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Investment in capital assets includes land, buildings, pump stations, collection and transmission lines, machinery and equipment, construction work in progress and intangible assets. The District's total net capital assets as of December 31, 2016, were $179.9 million. This increase of $2.1 million or 1.2% from 2015 is due to several major capital assets events during the fiscal year, including the following:

- The District completed and placed into service the Discovery Corridor Wastewater Transmission System (DCWTS) in 2016, a project totaling $28.7 million.

- In 2016, donated capital assets from developers totaled $7,015,528.

- During 2016, the District purchased three vehicles totaling $444,828: a Ford Escape for use as an inspector vehicle, a pump station service truck and a Vactor truck to replace aging fleet.

- For further explanations of the capital asset activity of the District, please refer to Note 4, Capital Assets, pages 35-36.

Long-Term Liabilities

- During 2016, the District decreased its loan liabilities by a total of $1,253,033. This decrease was solely driven by regular principal payments on outstanding loans.

- On November 28, 2012, the District issued $5,417,645 in sewer revenue bonds. The outstanding balance owed at year end 2016 is $3,378,658.

- Loans payable of $18,429,423 at year end include the following:

  - $755,852 on the PWTF loan for the Gee Creek Trunk Sewer T7 line transferred from the City of Ridgefield on January 1, 2014.

  - $17,673,571 in PWTF loans for the DCWTS project.

- Please refer to the Long-Term Liabilities, Note 3, pages 31-33, for more detailed information regarding long-term debt activity.

Revenues, Expenses and Changes in Net Position

	2016	2015	2016 to 2015 Change	%
Revenues				
Operating revenue				
Charges for services	$ 18,691,943	$ 17,542,643	$ 1,149,300	6.6%
Permits	150,445	127,150	23,295	18.3%
Miscellaneous	541,129	455,941	85,188	18.7%
Non-operating revenue				
Interest and investment income	339,891	307,304	32,587	10.6%
Other non-operating revenue	872,136	552,060	320,076	58.0%
Gain on disposal of asset	5,999	-	5,999	
Total revenues	20,601,543	18,985,098	1,616,445	
Expenses				
Operating expenses	29,062,822	23,078,519	5,984,303	25.9%
Non-operating expenses				
Other non-operating expenses	300,287	271,965	28,322	10.4%
Loss on disposal of asset	-	123,718	(123,718)	-100.0%
Interest expense	172,641	508,173	(335,532)	-66.0%
Total expenses	29,535,750	23,982,375	5,553,375	
EXCESS (DEFICIENCY) BEFORE CONTRIBUTIONS	(8,934,207)	(4,997,277)	(3,936,930)	78.8%
CAPITAL CONTRIBUTIONS	14,711,919	11,377,064	3,334,855	29.3%
SPECIAL ITEM	-	21,153,127	(21,153,127)	-100.0%
CHANGE IN NET POSITION	5,777,712	27,532,914	(21,755,202)	-79.0%
NET POSITION, January 1	184,651,293	159,952,162	24,699,131	15.4%
PRIOR PERIOD ADJUSTMENT	(802,010)	233,794	(1,035,804)	-
CHANGE IN ACCOUNTING PRINCIPLE	-	(3,067,577)	3,067,577	-
NET POSITION, December 31	$ 189,626,995	$ 184,651,293	$ 4,975,702	

- Service revenues increased in 2016 by $1,149,300 or 6.6% due partially to a $1 increase in rates and partially due to an increase in number of connections to sewer service. Miscellaneous revenues increased by 18.7% over 2015, to $541,129. This increase was primarily due to increased development activity in the District service area in 2016.

- Actual Equivalent Residential Unit (ERU) growth was 1,418 and 1,299 ERUs for 2016 and 2015, respectively. The District saw a revenue increase of 18.3% in permit fees for 2016 compared to 2015, driven by continued increased development in the District's service area.

- Interest and investment income in 2016 increased by 10.6% from 2015. The District continues to actively manage and diversify its investments outside of the State and County pools to maximize interest earnings.

- Other non-operating revenue increased by $320,076 or 58.0% in 2016. This increase was primarily driven by the receipt of a Federal Emergency Management Agency (FEMA) grant of $227,875 received for inclement weather-related repairs on District pump stations.

- The District receives System Development Charge (SDC) revenues, based on a tiered system, in an effort to support economic development within the District service area. The revenue from this charge is used for new infrastructure and capital projects within the District service area. Connection fee revenues (SDCs) for 2016 totaled $7,583,679 compared to $6,489,814 in 2015. These charges per connection did not change in 2016 from 2015. The charges per connection are as follows:

Tier	Treatment Plant	SDC
1	Vancouver (VTP)	$ 1,720
2	Salmon Creek (SCTP)	$ 4,708
3	Ridgefield (RFTP)	$ 7,550

- The remaining increase in capital contributions is a result of increased donated capital. The District received $7,015,528 in 2016 compared to $4,724,174 in 2015. This 48.5% increase is a result of increased development within the District's service area.

- Operating expenses for 2016 increased over 2015 by $6.0 million or 25.9%. The main drivers for this increase are:

  - Treatment contract services are the largest category of operating expenses. It increased $1,734,766 or 24.3%, mainly due to increased rates due to the Alliance as it expands operations, as well as a final treatment payment due to the City of Ridgefield for the defeasance of its bonds.

  - Labor and related benefits costs overall reflect an increase of $337,418 and $88,204, respectively, for 2016 due to annual salary merit and cost of living increases, and an increase in the cost of benefits.

  - Repairs and maintenance expense increased to $3,279,762 in 2016 due to the application of a new capital assets policy, adopted in 2016, which more clearly defines capital assets as opposed to capital repair projects that should be expensed.

Cash Flows

Wastewater collection is a very capital and asset intensive utility service. The District's current system, inclusive of the Ridgefield service area, is spread across 46 square-miles. Significant portions of the service area are undeveloped and require major infrastructure improvements and investments. Other portions of the system are over 50 years old and are beginning to reach their useful life. Growth in sewer service customers and service charges help fund capital expansion to the Alliance-owned Salmon Creek and Ridgefield wastewater treatment plants. Growth and increased rates provide the necessary annual cash flow to cover operating activities and partially support capital needs of the District.

CLARK REGIONAL WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

Economic Factors and 2016 Budget

The District experienced a negative operating income for 2016, continuing to spend down some cash reserves while at the same time servicing debt for the Discovery Corridor Wastewater Transmission System. The District increased rates in 2016 by $1.00 per month per ERU. The rate increase was primarily used to fund capital expansion and provide the cash flow for the related debt service.

The District has been fortunate in qualifying for low cost financing from the State of Washington Public Works Trust Fund (PWTF) loan (0.5%) program for major capital projects. This has allowed the District to keep its rates relatively steady for its ratepayers. The District worked diligently to stabilize rate impacts, while at the same time paying for its ongoing operating, capital and replacement and restoration needs by providing a rate structure that accommodates all three aspects of disbursements.

Requests for Information

This financial report is designed and intended to provide a general overview of the District's financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clark Regional Wastewater District, Finance Director/Treasurer, PO Box 8979, Vancouver, WA 98668-8979 or http://www.crwwd.com

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016

ASSETS AND DEFERRED OUTFLOWS

		2016
CURRENT ASSETS		
Cash and cash equivalents	$	19,655,375
Investments (at fair value)		10,002,450
Receivables		
Customer accounts		1,644,469
Contracts (current and delinquent)		76,783
Interest		37,561
Due from other governments		710,088
Prepaid expenses		247,431
Total current assets		32,374,157
NONCURRENT ASSETS		
Investments (at fair value)		9,974,170
Restricted cash and cash equivalents		541,765
Contracts receivable		363,813
Total long-term assets		10,879,748
Capital assets not being depreciated		
Land and land rights		753,751
Construction work in progress		4,505,285
Total capital assets not being depreciated		5,259,036
Capital assets being depreciated		
Buildings		3,727,071
Improvements other than buildings		185,482,056
Equipment		3,238,602
Less: accumulated depreciation		(46,988,075)
Total capital assets being depreciated		145,459,654
Capital assets being amortized:		
Intangible assets, including future treatment capacity rights		85,763,587
Less: accumulated amortization		(56,617,213)
Total capital assets being amortized		29,146,374
Total noncurrent assets		190,744,812
Total assets		223,118,969
DEFERRED OUTFLOWS		
Amounts deferred for pensions		634,345
Total deferred outflows	$	634,345

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

		2016
CURRENT LIABILITIES		
Warrants payable	$	4,139,275
Accounts payable		505,243
Interest payable		60,902
Revenue collected in advance		439,828
SDC credits		75,500
Construction deposits		172,888
Compensated absences		40,122
Loans payable		1,225,162
Sewer revenue bonds		535,741
Total current liabilities		7,194,661
NONCURRENT LIABILITIES		
Compensated absences		405,677
SDC credits		1,532,910
Loans payable		17,204,261
Sewer revenue bonds		2,842,917
Net pension liability		3,568,359
Other postemployment benefits (OPEB)		1,313,212
Total noncurrent liabilities		26,867,336
Total liabilities		34,061,997
DEFERRED INFLOWS		
Amounts deferred for pensions		64,322
Total deferred inflows		64,322
NET POSITION		
Net investment in capital assets		158,056,983
Restricted - debt reserve reserve		541,765
Unrestricted		31,028,247
Total net position	$	189,626,995

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2016

		2016
OPERATING REVENUES		
Charges for services	$	18,691,943
Permits		150,445
Other operating revenue		541,129
Total utility operating revenues		19,383,517
OPERATING EXPENSES		
Salaries and wages		3,710,935
Personnel benefits		1,709,566
Supplies		495,139
Professional services		310,235
Insurance		134,588
Repairs and maintenance		3,279,762
Treatment contract services		8,876,412
Taxes		495,234
Other operating expense		1,105,556
Depreciation and amortization		8,945,395
Total operating expenses		29,062,822
OPERATING INCOME (LOSS)		(9,679,305)
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue		339,891
Other non-operating revenue		872,136
Gain on disposal of assets		5,999
Interest expense		(172,641)
Other non-operating expense		(300,287)
Total non-operating revenue (expenses)		745,098
INCOME BEFORE CONTRIBUTIONS		(8,934,207)
CAPITAL CONTRIBUTIONS		14,711,919
CHANGE IN NET POSITION		5,777,712
TOTAL NET POSITION, January 1		184,651,293
PRIOR PERIOD ADJUSTMENT		(802,010)
TOTAL NET POSITION, December 31	$	189,626,995

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	2016
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 19,773,664
Payments to suppliers	(13,307,437)
Payments to employees	(5,345,885)
Payments for taxes	(469,997)
Other reimbursements	(719,564)
Other revenues	452,244
Net cash from operating activities	383,025
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grant revenues received	227,875
Net cash from noncapital financing activities	227,875
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts for future system improvements	7,769,994
Proceeds from sale of capital assets	5,999
Principal paid on long-term debt	(1,778,321)
Interest paid on long-term debt	(177,304)
Acquisition and construction of capital assets	(4,875,784)
Net cash from capital and related financing	944,584
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(5,022,792)
Proceeds from maturing or called investments	6,106,648
Interest on investments	230,658
Interest on contracts	20,331
Net cash from investing activities	1,334,845
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,890,329
CASH AND CASH EQUIVALENTS, January 1	17,306,811
CASH AND CASH EQUIVALENTS, December 31	$ 20,197,140

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Utility operating income (loss)	$ (9,679,305)
Adjustments to reconcile operating income to net from operating activities	
Depreciation and amortization expense	8,945,395
(Increase) decrease in accounts receivable	(113,167)
(Increase) decrease in due from other governments	(156,310)
(Increase) decrease in prepaid expenses	(39,379)
(Increase) decrease in deferred outflows	(265,997)
Increase (decrease) in warrants payable	844,768
Increase (decrease) in accounts payable	58,204
Increase (decrease) in accrued employee benefits	171,578
Increase (decrease) in revenue collected in advance	15,363
Increase (decrease) in pension obligation (net)	644,445
Increase (decrease) in deferred inflows	(386,544)
Non-operating expenses	(300,287)
Non-operating revenues	644,261
Total adjustments	10,062,330
Net cash from operating activities	$ 383,025
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Contributions of capital assets from developers or governments	7,015,528
Increase (decrease) in fair value of investments	(86,542)
Issuance (receipt) of capital contract receivable	69,490
Change in Capital Related Accounts Payable	(49,664)

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

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

The Hazel Dell Sewer District (District) was formed May 22, 1958, as a Special Purpose District to provide sanitary sewers in the collection, transport and treatment of wastewater within its legal boundaries. The District operates under an independent, three-member elected Board of Commissioners as provided by Revised Code of Washington (RCW) Title 57, with the General Manager responsible for the daily management of operational and administrative activities of the District. The District changed its legal name to Clark Regional Wastewater District effective January 1, 2006.

The accounting policies of the District 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 District 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 District to be a primary government. The District meets all three criteria:

1. An independent, elected governing body that is directly accountable to its citizens within the District;

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 District has evaluated all legal entities that would potentially qualify as a component unit and be included in the financial statements of the District. The District concludes it has no component units. The District's financial statements include the financial position and results of operation of a single enterprise that the District manages and has custodial responsibility over the assets and liabilities therein.

Basis of accounting and presentation – The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under authority chapter 43.09. The District 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 District's financial statements have been prepared in conformity with GAAP.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Assets are capitalized based upon the District's capitalization policy and long-term liabilities are accounted for in the appropriate accounts.

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 District accounts for its operations within an enterprise fund, which is similar to a private business enterprise.

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

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

Cash and cash equivalents – For the purposes of the Statements of Net Position and Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All amounts held in the Local Government Investment Pool (LGIP) and Clark County Investment Pool (CCIP) accounts are considered to be cash equivalents. Investments purchased with an original maturity of more than three months are classified as investments.

Investments – Certain investments are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, on quoted market prices for securities purchased by the District. All investments held have readily available market prices. The change in fair value is reported in the Statement of Revenues, Expenses and Changes in Net Position as an increase or decrease to investment assets and investment income. Realized gains or losses on the maturity or disposition of securities are not separately disclosed. Likewise, some investments are reported at amortized cost.

Receivables – Accounts receivables represent user charges for sewer services, which are recognized as earned. All accounts receivables are due from users within the service area of the District. Since the District records liens on the property served and, ultimately, may foreclose on such property, payments on delinquent accounts are eventually received.

Contracts receivables are related to construction costs, as well as any applicable financing costs corresponding to such sanitary sewer construction for a particular property or group of properties. Contracts are provided under state statutes and direct the process in which the District extends sanitary sewer services to properties. Contracts are recorded as an enforceable lien on the property when they are levied. These receivables consist of current, delinquent and deferred billed principal with related interest and penalties. As of December 31, 2016, delinquent contract receivables were $17,502.

Capital assets – The District's capital assets include but are not limited to land, buildings, treatment capacity rights, construction work in progress, machinery, equipment, furniture and software. See Note 4 on pages 34 through 35 for detailed information about the District's capital assets.

Compensated absences – Accumulated but unpaid compensated absences (vacation and sick leave) are recorded as liabilities as earned. Vacation may accumulate up to a maximum of 360 hours or, for those restricted to contracts, the contract amount, although the maximum compensable payout allowed is 240 hours. Sick leave earned, vested and unused by District employees is compensable at 50% of its value upon voluntary termination, retirement or death and is also recorded as a District liability. Sick leave may accumulate beyond 960 hours for an employee; however, 50% of 960 hours is the maximum payout allowed. Total accrued unpaid compensated absences (vacation and sick leave) amounted to $445,799 at December 31, 2016.

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

Pensions and deferred inflows / outflows of resources – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Amounts relating to pensions are further detailed in Note 7 – Pension Plans, pages 43 through 49.

Prepaid expenses – The District uses the consumption method to account for prepaid expenses.

Intangible assets – The District currently recognizes its future treatment capacity rights in the Alliance's Salmon Creek Treatment Plant as a component of the District's net capital assets, in compliance with GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets."

Note 2 – Accounting and Reporting Changes

The District implemented GASB 72, Fair Value Measurement and Application. This statement provides guidance for determining a fair value measurement for financial reporting purposes and requires the application of fair value to certain investments, in order to promote comparability of government financial statements. The standard expands the level of disclosure for fair value methodology in the notes to the financial statements. The standard also changes the recorded value of contributed capital assets from fair value to acquisition value.

The District implemented GASB 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement identifies the hierarchy of generally accepted accounting principles for governmental financial reporting and establishes the framework for selecting those principles.

The District implemented GASB 79, Certain External Investment Pools and Pool Participants. This statement provides criteria for an external investment pool to qualify for making an election to measure all of its investments at amortized cost for financial reporting purposes, and requires pool participants to report using the same criteria. This standard adds note disclosure requirements for the District with regard to pool investments.

The District has elected to early implement GASB 82, Pension Issues. This statement amends GASB 68 by changing the definition of covered payroll reported in Required Supplementary Information to the payroll on which contributions to a pension plan are based. This statement also clarifies that employer-paid member contributions should be classified as employee contributions for purposes of determining a cost-sharing employer's proportion.

Note 3 – Long-Term Liabilities

Revenue Bonds – Revenue bonds are authorized and adopted by the Board of Commissioners for construction of capital additions. Sewer revenues of the District provide the security for repayment of District debt. The District issued sewer revenue bonds totaling $5,417,645 in November 2012. Debt service on the loan for 2016 totaled $600,000 ($525,289 principal and $74,711 interest). These bonds have an interest rate of 1.98%. Proceeds were used to reimburse the District for reserves used to retire Clark County's 2001 sewer revenue bonds. The annual debt service requirements for these 2012 sewer revenue bonds are as follows:

	2012 Sewer Revenue Bonds		
Year	Principal	Interest	Total Debt Service
2017	$ 535,741	$ 64,259	$ 600,000
2018	546,402	53,598	600,000
2019	557,274	42,726	600,000
2020	568,363	31,637	600,000
2021	579,672	20,328	600,000
2022	591,206	8,794	600,000
Total	$ 3,378,658	$ 221,342	$ 3,600,000

The District 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, 2016, $541,765 has been set aside to meet this requirement.

The District 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, 2016 were met.

The Tax Recovery Act of 1986 established regulations for rebate of arbitrage earning to the federal government on certain local government bonds. Issuing governments must calculate and remit annually any rebate due at least every five years. The District has a cumulative negative rebate amount for its bonds. No liability was recorded at December 31, 2016.

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, who has approved four loans to the District through December 31, 2016, of whichone loan was paid in full July 1, 2016. Remaining loans from the state PWTF will be repaid over a period not to exceed twenty (20) years at the stated interest rates.

Construction was funded through use of these loans as follows:

- Gee Creek Trunk Sewer project with loans, issued notices of completion and final draws were executed by the City of Ridgefield in 2008. This loan was transferred to the District on January 1, 2014, as part of the collection system transfer of operations.

Note 3 – Long-Term Liabilities

- Discovery Corridor Wastewater Transmission System was completed in 2016. The District and the City of Ridgefield were each directly approved for $10,000,000 loans. The total $20,000,000 of approved loans funded design and substantial construction activities. The initial loan draws were made in June 2013 and July 2013, respectively. On January 1, 2014, the City's loan was transferred to the District as part of the transfer of its collection system operations. As of December 31, 2016, the District is fully drawn on both the loan directly issued to the District and the loan transferred from Ridgefield.

Below is a schedule of loans containing a description of each loan, its use, and outstanding balance as of December 31, 2016:

Public Works Trust Fund Loans	Loan Number	Notice of Completion	Approved Loan Amount	Balance	Interest Rate
Gee Creek Trunk Sewer	PW-05-691-047	February 2008	$ 1,597,606	$ 755,852	1.0%
Discovery Corridor Wastewater Transmission System	PC-12-951-034	N/A	10,000,000	8,779,340	0.5%
Discovery Corridor Wastewater Transmission System	PC-13-961-040	N/A	10,000,000	8,894,231	0.5%
				$18,429,423	

For 2016, the District paid $1,327,476 ($1,225,162 principal and $102,314 interest) on the PWTF loans the District is carrying an outstanding balance on as of December 31, 2016. The District also made the final payment of $28,149 ($27,870 principal and $279 interest) on the Hockinson pump station PWTF loan.

The annual debt service requirements for the outstanding PWTF loans payable are as follows:

	State of Washington - Public Works Trust Fund Loans						
	Gee Creek Trunk Sewer		DCWTS*		Total		
Year	Principal	Interest	Principal	Interest	Principal	Interest	Payments
2017	$ 83,983	$ 7,559	$ 1,141,179	$ 88,368	$ 1,225,162	$ 95,927	$ 1,321,089
2018	83,984	6,719	1,141,179	82,662	1,225,163	89,381	1,314,544
2019	83,984	5,879	1,141,179	76,956	1,225,163	82,835	1,307,998
2020	83,984	5,039	1,141,179	71,250	1,225,163	76,289	1,301,452
2021	83,984	4,199	1,141,179	65,544	1,225,163	69,743	1,294,906
2022-2026	335,933	8,399	5,705,894	242,133	6,041,827	250,532	6,292,359
2027-2031	-	-	5,705,894	99,486	5,705,894	99,486	5,805,380
2032-2034	-	-	555,888	2,779	555,888	2,779	558,667
Total	$755,852	$ 37,794	$ 17,673,571	$729,178	$ 18,429,423	$766,972	$ 19,196,395

* Discovery Corridor Wastewater Transmission System

Note 3 – Long-Term Liabilities (Continued)

Changes in long-term liabilities as a summary for the year ended December 31, 2016:

	Balance Jan. 1, 2016	Additions	Reductions	Balance Dec. 31, 2016	Due Within One Year
Compensated absences	$ 444,862	$ 406,896	$ 405,959	$ 445,799	$ 40,122
Other post employment benefits	1,142,571	170,641	-	1,313,212	-
Pension Liability	2,923,914	644,445	-	3,568,359	-
Loans payable	19,682,456	-	1,253,033	18,429,423	1,225,162
2012 sewer revenue bonds	3,903,947	-	525,289	3,378,658	535,741
Total long-term liabilities	$ 28,097,750	$ 1,221,982	$ 2,184,281	$27,135,451	$1,801,025

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 acquisition value at the time contributed.

Costs for major additions and improvements, when they increase efficiency or effectiveness, are capitalized if the District's capitalization threshold is met – a purchase or construction cost greater than $5,000 and with a useful life of more than one year. 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	50 years
Improvements other than buildings	50 years
Machinery, furniture and equipment	5 - 20 years
Intangible assets	5 - 20 years

The District 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.

The following schedule of capital assets is recorded at historical costs with any related additions due to purchases or utility plant brought into service. In 2016, the District incurred $4,335,235 in CWIP project costs (i.e. pump stations, pump station improvements, and force mains) of which $2,510,434 was for the construction of the Glenwood and Royle Road pump stations, with 2016 project costs of $1,097,556 and $1,412,878, respectively. The District transferred $31,320,392 from CWIP into service, including the Discovery Corridor Wastewater Transmission System (DCWTS) project at a total cost of $28,655,727.

The District and the City of Battle Ground, through an Interlocal Agreement, own 100% of the treatment capacity rights of the Salmon Creek Treatment Plant, owned by the Alliance, with the District having the majority share. This intangible asset, per GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets,*" is recognized in our capital assets as "future treatment capacity rights," at a value at December 31, 2016 of $29,115,902.

Capital assets activity for the year ended December 31, 2016, is as follows:

Note 4 – Capital Assets (Continued)

	Balance Jan. 1, 2016	Prior period adjustment	Balance Jan. 1, 2016 Restated	Additions & Transfers	Retirements & Transfers	Balance Dec. 31, 2016
CAPITAL ASSETS - NONDEPRECIABLE:						
Land and land rights	$ 753,751	$ -	$ 753,751	$ -	$ -	$ 753,751
Construction work-in-progress	32,147,948	(657,506)	31,490,442	4,335,235	31,320,392	4,505,285
Total capital assets - nondepreciable	32,901,699	(657,506)	32,244,193	4,335,235	31,320,392	5,259,036
CAPITAL ASSETS - DEPRECIABLE:						
Collection and transmission system	132,456,448	(153,536)	132,302,912	38,261,273	-	170,564,185
Buildings	3,727,071	-	3,727,071	-	-	3,727,071
Pumping stations	14,850,599	-	14,850,599	74,647	7,375	14,917,871
Machinery, furniture and equipment	2,803,267	-	2,803,267	484,736	49,401	3,238,602
Intangible assets, including future treatment capacity rights	85,757,438	-	85,757,438	6,149	-	85,763,587
Total capital assets - depreciable	239,594,823	(153,536)	239,441,287	38,826,805	56,776	278,211,316
LESS ACCUMULATED DEPRECIATION:						
Collection and transmission system	(37,035,883)	1,716	(37,034,167)	(3,332,119)	-	(40,366,286)
Buildings	(1,330,461)	-	(1,330,461)	(81,248)	-	(1,411,709)
Pumping stations	(2,534,140)	-	(2,534,140)	(334,597)	(7,375)	(2,861,362)
Machinery, furniture and equipment	(2,249,071)	-	(2,249,071)	(149,048)	(49,401)	(2,348,718)
Intangible assets, including future treatment capacity rights	(51,568,830)	-	(51,568,830)	(5,048,383)	-	(56,617,213)
Total accumulated depreciation	(94,718,385)	1,716	(94,716,669)	(8,945,395)	(56,776)	(103,605,288)
Total capital assets - depreciable, Net	144,876,438	(151,820)	144,724,618	29,881,410	-	174,606,028
Total capital assets, Net	$ 177,778,137	$ (809,326)	$ 176,968,811	$ 34,216,645	$ 31,320,392	$ 179,865,064

Note 5 – Cash and Cash Equivalents and Investments

The District 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, 2016, comply with the provisions of that code section and with the District's investment policy adopted by Board Resolution. The District's deposits and investments are managed daily by the District Finance Director/Treasurer.

Cash and Cash Equivalents – Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The District has an adopted policy that addresses deposit custodial risk; however, the District deposits and certificates of deposit 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). In the event of a bank failure, claims for the District's deposits would be satisfied by the FDIC or from the sale of collateral held in the WPDPC pool. The District's investment policy provides that whenever there are more than sufficient funds or cash balances to meet current expenses payable, a portion of such funds or balances as deemed expedient may be invested as either short term or long term investments.

For short term investments, cash equivalents, the District utilizes both the Washington State Local Government Investment Pool (LGIP), which is reported at amortized cost, and Clark County Investment Pool (CCIP), reported at fair value. The LGIP transacts with its participants at a stable net asset value per share and meets the portfolio maturity, quality, diversification, liquidity and shadow pricing requirements that allows it to report at amortized costs. Further, the LGIP is classified as an unrated 2a-7 investment pool per the Securities and Exchange Commission. The CCIP is also an unrated fund and is not SEC-registered. Authority to manage the Pool is derived from the Revised Code of Washington (RCW) in RCW 36.29.022. The fair value of the position in the pool is the same as the value of the pool shares. The weighted average maturities of the LGIP and CCIP are less than three (3) months and approximately one (1) year, respectively, with cash available to the District on demand. The on demand availability of these funds defines them as cash equivalent liquid investments and not subject to interest rate risk. Cash investments are not subject to interest rate risk or any market value reporting requirement as defined by GASB 31. All LGIP investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposits, meaning credit risk is very limited. The investments are either fully insured or fully held by a third party custody provider in the name of the LGIP. The LGIP is audited by the Washington State Auditor's Office and regulated by Washington RCWs and the LGIP Advisory Committee. 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.

Note 5 – Cash and Cash Equivalents and Investments (Continued)

As of December 31, 2016, the District's cash, cash equivalents and investments are as follows:

	2016
Cash and cash equivalents:	
Bank depository and checking accounts	$ 2,720,244
Travel advance	2,500
Petty cash / change drawers	1,250
Washington State Local Government Investment Pool	3,478,508
Clark County Investment Pool	13,994,638
Total cash and cash equivalents	$ 20,197,140

Investments – The District's investment policy provides that whenever there are more than sufficient funds or cash balances to meet current expenses payable, a portion of such funds or balances as deemed expedient may be invested as either short term or long term investments.
It is the District's policy to invest funds in a manner that:

1. Provides maximum security that the investment proceeds will be returned upon maturity;
2. Provides adequate liquidity to meet cash needs; and
3. Provides the greatest return on investment.

The District's investment policy limits to 25.0% any one type of issuer of security, but excludes this limitation in relation to obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government, as well as the Washington State Local Government Investment Pool (LGIP) and Clark County Investment Pool. Investments in securities issued by U.S. government-sponsored enterprises, repurchase agreements, banker's acceptances, certificates of deposits and notes of designated public depositories are held to this limitation.

Investments Measured at Amortized Cost

As of December 31, 2016, the District had the following investments at amortized cost.

Investment	Maturities	Total
Washington State Local Government Investment Pool	N/A	$ 3,478,508
Total		$ 3,478,508

These are reported at amortized cost because the State Pool has elected to measure in this manner. The only restriction on withdrawals from the State Investment Pool is when a deposit is received by ACH. In this case, a five day waiting period exists.

Note 5 – Cash and Cash Equivalents and Investments (Continued)

Investments Measured at Fair Value

The District measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy, as follows:

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

At December 31, 2016, the District had the following recurring fair value measurements:

		Fair Value Measurement Using:		
Investment by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Clark County Investment Pool	$ 13,994,638	$ 13,994,638	$ -	$ -
Investment Securities				
Federal National Mortgage Association	1,997,790	-	1,997,790	-
Federal Home Loan Bank	2,004,090	-	2,004,090	-
U.S. Treasury Notes	10,993,660	10,993,660	-	-
Federal Home Loan Mortgage Corporation	4,981,080	-	4,981,080	-
	$ 33,971,258	$ 24,988,298	$ 8,982,960	$ -
Maximum investment by maturity	100%	74%	26%	0%

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment 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 District 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 District at year-end did not have any security lending or reverse repurchase agreements. District deposits and investments are either insured or held by an agent in the District's name.

Interest rate risk relates to how the fair value of an investment may adversely be affected by changes in interest rates. With regard to interest rate risk, the District's investment policy requires that investments be matched to anticipated cash flow requirements to the extent possible. Unless matched to a specified time period with regard to cash flows, investments in securities shall be five (5) years or less from the date of purchase providing that the average maturity of the portfolio shall not exceed two and one-half (2-1/2) years. This policy assists the District in limiting its exposure to changes in the fair value of its investments.

Note 5 – Cash and Cash Equivalents and Investments (Continued)

As to credit risk, which is a risk that an issuer of an investment will not fulfill its obligations, the District's investment policy states the Finance Director is empowered to invest in the security instruments authorized in Washington RCW 36.29.020. The District invests in no more than 25.0% of any one type of issuer except as stated above. All investments held by the District at year-end 2016 had a credit quality rating of AA+ by Standard and Poor's.

In following GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*," the District has chosen to use the segmented time distribution format and include the credit ratings of the security issuers with regard to its investments as of December 31, 2016.

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 - 5
Clark County Investment Pool	$ 13,994,638	$ 13,994,638	$ -
Federal National Mortgage Association	1,997,790	1,997,790	-
Federal Home Loan Bank	2,004,090	2,004,090	-
U.S. Treasury Notes	10,993,660	6,000,570	4,993,090
Federal Home Loan Mortgage Corporation	4,981,080	-	4,981,080
	$ 33,971,258	$ 23,997,088	$ 9,974,170
Maximum investment by maturity	100%	71%	29%

Investments in any one issue that exceeds 5% and are not obligations of, or guaranteed by, the U.S. government, as of December 31, 2016:

Investment Type	Percent	Fair Value
Federal National Mortgage Association	5%	1,997,790
Federal Home Loan Bank	5%	2,004,090
Federal Home Loan Mortgage Corporation	13%	4,981,080
		$ 8,982,960

A reconciliation of cash and cash equivalents and investments as reported in the Statement of Net Position at December 31 is as follows:

	2016
Cash and cash equivalents - unrestricted	$ 19,655,375
Cash and cash equivalents - restricted	$ 541,765
Investment securities (at fair value)	19,976,620
Total	$ 40,173,760

Note 6 – Risk Management

Clark Regional Wastewater District 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 62 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:

Note 6 – Risk Management (Continued)

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000 - $25,000 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	$110,000,000 ($75,000,000 shared by all members, $25,000,000 dedicated to Alderwood, $5,000,000 dedicated to Sammamish Plateau, and $5,000,000 dedicated to Cascade Water Alliance)
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	$0	$25,000
A. $100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; $250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to $100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is $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, 2017, written notice must be in possession of the Pool by April 30, 2017). 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 District was a signatory to the Interlocal Governmental Agreement.

Note 6 – Risk Management (Continued)

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.

The following schedule depicts the property claims filed by the District with the Pool for the years 2016, 2015 and 2014 and the amounts covered by insurance.

Years	Claims Settlements	Insurance Coverage	Excess of Claim Cost Over Coverage
2016	$ 13,280	$ 11,280	$ 2,000
2015	89,118	85,812	3,306
2014	9,085	7,085	2,000

As of December 31, 2016, there was one outstanding claim filed with the pool with a minimal expected cost to the District. The District recognizes no potential liability for any additional settlements for outstanding future claims. The amount of settlements did not exceed insurance coverage in the last three years.

The District is self-insured for employee unemployment claims and has set aside funds to cover the actual cost of unemployment insurance. This unemployment reserve was established as required by Washington State Law for a reimbursable employer.

Note 7 – Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans		
Pension liabilities	$	3,568,359
Deferred outflows of resources		634,345
Deferred inflows of resources		64,322
Pension expense/expenditures		393,799

State Sponsored Pension Plans
Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Note 7 – Pension Plans (Continued)

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by

Note 7 – Pension Plans (Continued)

statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**

The District's actual PERS plan contributions were $174,276 to PERS Plan 1 and $227,619 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Note 7 – Pension Plans (Continued)

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.
There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.

- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Note 7 – Pension Plans (Continued)

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of Net Pension Liability

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 1,953,431	$ 1,619,895	$ 1,332,867
PERS 2/3	$ 3,587,473	$ 1,948,464	$ (1,014,288)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the District reported a total pension liability of $3,568,359 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$ 1,619,895
PERS 2/3	$ 1,948,464

Note 7 – Pension Plans (Continued)

At June 30, 2015, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.029695%	0.030163%	0.000468%
PERS 2/3	0.038359%	0.038699%	0.000340%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the District recognized pension expense as follows:

	Pension Expense
PERS 1	$ 111,852
PERS 2/3	281,947
TOTAL	$ 393,799

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ 40,786	$ -
Contributions subsequent to the measurement date	$ 87,936	$ -
TOTAL	$ 128,722	$ -

Note 7 – Pension Plans (Continued)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 103,754	$ 64,322
Net difference between projected and actual investment earnings on pension plan investments	$ 238,434	$ -
Changes of assumptions	$ 20,139	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ 28,445	$ -
Contributions subsequent to the measurement date	$ 114,851	$ -
TOTAL	$ 505,623	$ 64,322

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2017	$ (10,042)	$ 12,081
2018	$ (10,042)	$ 12,081
2019	$ 37,458	$ 188,616
2020	$ 23,412	$ 113,672
2021	$ -	$ -
Thereafter	$ -	$ -

Note 8 – Deferred Compensation Plan

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The International City Managers Association (ICMA) and the Washington Department of Retirement Services (DRS) each administer one of the two plans. The plans are available to all District employees, which allow a deferral of a portion of their taxable wages until future years. A distribution from the deferred compensation plans to an employee is allowed at termination of employment, retirement, death, or under certain emergencies. The District does not administer or manage the deferred compensation plans but instead all amounts are the property of the employee.

Note 9 – Construction and Other Significant Commitments

The District has construction commitments resulting from active consultant and construction projects, including restoration and replacement projects, as of December 31, 2016 exceeding $100,000 as follows:

Project	Total Awarded Contract Commitment	Spent to Date	Remaining on Contract
Glenwood Pump Station Upgrade	2,003,016	1,479,959	523,057
NE 82 Street DII	103,358	99,941	3,417
NE 78th Street Trunk	248,880	158,920	89,960
Highway 99 Sewer South (NE 63 St to NE 78 St)	2,364,341	2,281,183	83,158
Royle Road Pump Station	2,760,759	1,447,727	1,313,032
	$ 7,480,354	$ 5,467,730	$ 2,012,624

There are no other significant commitments as of December 31, 2016.

Note 10 – Other Postemployment Benefits (OPEB)

Plan Description – The District participates in a cost sharing multiple-employer defined benefit Other Postemployment Benefit (OPEB) plan. This plan is administered by the Health Care Authority (HCA) per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability. Benefits are offered to retirees at a subsidized rate.

The benefits are provided in accordance with a substantive plan, in which the plan terms are understood by the employers and plan member, but not formalized in a contract or plan document. The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong.

As of year-end 2016, there were four District employees that had retired and were receiving these benefits.

This OPEB plan does not issue a stand-alone financial report but it is included in the report of the State of Washington, Office of Financial Management. This report can be obtained from the following website: http://www.ofm.wa.gov/cafr/.

Funding Policy – This plan is currently not funded. The District was required to contribute $203,373 at December 31, 2016; $12,359 was contributed. The amount contributed differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go-basis. The difference between the OPEB Costs and the required contribution is called the Net OPEB Obligation (NOO). This amount of $1,313,212 is the actuarial accrued liability recognized on the *Statement of Net Position* at December 31, 2016.

The total Unfunded Actuarial Accrued Liability (UAAL) is $1,498,961 at December 31, 2016. The covered payroll (annual payroll of active employees covered by the plan) was $3,653,591 and the ratio of the UAAL to the covered payroll was 41.0%.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributions	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2016	$ 183,000	$ 12,359	6.8%	$ 1,313,212
2015	200,655	6,732	3.4%	1,142,571
2014	119,506	-	0.0%	948,647

Note 10 – Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation – The District's annual other postemployment benefit (OPEB) cost (expense) is determined based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the alternative measurement method permitted under GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

	2016
Actuarial Required Contribution	$ 203,373
Interest on Net OPEB Obligation (NOO)	45,702
Adjustment to NOO	(66,075)
Annual OPEB Cost	183,000
Employer Contributions	12,359
Increase (Decrease) in NOO	170,641
Net OPEB Obligation January 1	1,142,571
Net OPEB Obligation December 31	$ 1,313,212

Actuarial Methods and Assumptions – The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about retirement ages, mortality and the healthcare cost trend. The actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as required supplementary information immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additionally, calculations are based on the types of benefits provided under the terms of the plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. The specific actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Valuation Date	12/31/2016
Actuarial Cost Method	Projected Unit Credit
Method used to determine the actuarial value of assets	N/A
Interest Rate for Discounting Future Liabilities	4.00%
Projected Payroll Growth	3.75%
Investment Return	N/A
Healthcare Cost Trend Rate - Initial	6.7%
Healthcare Cost Trend Rate - Ultimate	4.5%
Amortization Period - Open	30

Note 10 – Other Postemployment Benefits (OPEB) (Continued)

We used the alternative measurement method permitted under GASB 45. A single retirement age of 62.40 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2015 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-side PEBB study performed in 2015. The results were based on grouped data with 4 active groupings and 4 inactive groups. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Note 11 – Capital Contributions

Capital contributions – Capital contributions recognized annually included in changes in net position include assets constructed by developers then donated to the District, connections fees charged for capital improvements and reimbursement for local facility improvements previously funded by the District.

	2016
Capital contributions from developers, governments and other sources	$ 7,015,528
Capital contributions from system development charges	7,583,679
Capital contributions from local facility reimbursements	112,712
Total	$ 14,711,919

Note 12 – Joint Venture/Related Party Transactions

Discovery Clean Water Alliance (Alliance) – In 2012, Clark County, Clark Regional Wastewater District (District) and the Cities of Battle Ground and Ridgefield reached agreement on the optimum structure for a regional wastewater transmission and treatment utility to meet the needs of the agencies and community for the next generation. The Interlocal Formation Agreement (IFA), signed on September 27, 2012, represents the culmination of five years of study, and provided the foundation to create a new regional utility entity, the Alliance, under the empowerment of Chapter 39.106 RCW – the Joint Municipal Utility Services Act (JMUSA). The Alliance was incorporated with the Washington Secretary of State on January 4, 2013. The Alliance is governed by a four member board, one elected official from each entity, and was established to provide wastewater transmission and treatment services to the citizenry of the respective participating members.

As the managing partner or "Administrative Lead" for the Alliance, the task of implementing steps to fulfill the vision of the partner agencies fell largely to the District. A two year transition work program was initiated in 2013 and continued through 2014. A series of initial resolutions and agreements were approved by the Alliance Board at its first official meeting on January 18, 2013, to establish the legal framework for the Alliance.

Regional Service Charges, fees paid by Members to the Alliance, are consistent with the Financial Policies of the Alliance. The basic principle of the Finance Policies is that each Member's responsibility for Regional Asset operating costs will be based on actual use of the regional services during the previous year or years, as measured by Average Annual Flow in the Regional Assets, and that each Member's responsibility for capital costs will be based on agreed-upon Allocated Capacity in the Regional Assets. With all wastewater flows and allocated capacities in Regional Assets currently coming from two Members, the District and City of Battle Ground, these two Members now fund all operating and capital costs of the Alliance.

Each Member, as pledged through the IFA adoption, also agrees to establish, maintain and collect rates, fees or other charges for wastewater or other services, facilities and commodities related to the services it receives from the Alliance and its own wastewater utility, and maintain reserves to provide revenues sufficient for the Member to make all payments required under this Agreement.

During 2016, the District paid $7,576,246 to the Alliance for Regional Service Charges, as budgeted by the District and Alliance. The District billed the Alliance $636,532 for Administration Lead services provided, which includes both staff time and expenses for professional consulting, IT support, insurance and various utilities expenses. More information about the Alliance, including the 2016 Comprehensive Annual Financial Report, can be can be found on their website at http://www.discoverycwa.org/.

Note 13 – Prior Period Adjustments

Prior period adjustments have been recorded related to the following:

Description		Amount
Change in capital asset policy resulting in expensing of assets previously capitalized	$	(827,352)
Correction of revenues and expenses recorded as a related party liability		7,316
Adjustment to value of assets donated in the prior year		18,026
Total prior period adjustments	$	(802,010)

REQUIRED SUPPLEMENTARY INFORMATION
POSTEMPLOYMENT BENEFIT PLAN OTHER THAN PENSION
RETIREE MEDICAL BENEFITS
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2016

Actuarial Valuation Date	Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/14	12/31/14	-	829,287	829,287	0.0%	3,289,190	25.2%
12/31/15	12/31/15	-	1,525,759	1,525,759	0.0%	3,503,486	43.5%
12/31/16	12/31/16	-	1,498,961	1,498,961	0.0%	3,653,591	41.0%

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 1
AS OF JUNE 30
LAST THREE FISCAL YEARS

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2014	0.029187%	$ 1,470,309	$ 3,188,944	46.11%	61.19%
2015	0.029695%	1,553,325	3,403,683	45.64%	59.10%
2016	0.030163%	1,619,895	3,586,324	45.17%	57.03%

See notes to Required Supplementary Information.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 2/3
AS OF JUNE 30
LAST THREE FISCAL YEARS

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2014	0.037579%	$ 759,607	$ 3,188,944	23.82%	93.29%
2015	0.038359%	1,370,589	3,403,683	40.27%	89.20%
2016	0.038699%	1,948,464	3,586,324	54.33%	85.82%

See notes to Required Supplementary Information.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 1
AS OF DECEMBER 31
LAST THREE FISCAL YEARS

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 132,731	$ (132,731)	$ -	$ 3,289,190	4.04%
2015	153,801	(153,801)	-	$ 3,503,486	4.39%
2016	174,276	(174,276)	-	$ 3,653,591	4.77%

See notes to Required Supplementary Information.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 2/3
AS OF DECEMBER 31
LAST THREE FISCAL YEARS

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	$ 164,282	$ (164,282)	$ -	$ 3,289,190	4.99%
2015	197,516	(197,516)	-	3,503,486	5.64%
2016	227,619	(227,619)	-	3,653,591	6.23%

See notes to Required Supplementary Information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION

Note 1 – Information Provided

The District implemented GASB 68 for the year ended December 31, 2015; therefore, there is no data available for years prior to 2014.

Note 2 – Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

Note 3 – Implementation of GASB 82

Covered payroll has been retrospectively presented in accordance with GASB 82, Pension Issues. Covered payroll now includes all payroll on which a contribution is based. In prior reports, Plan 1 UAAL covered payroll was included for plans other than PERS 1.

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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