



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## Northwest Clean Air Agency

For the period July 1, 2020 through June 30, 2022

*Published July 20, 2023*

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

July 20, 2023

Board of Directors  
Northwest Clean Air Agency  
Mount Vernon, Washington

**Report on Financial Statements**

Please find attached our report on the Northwest Clean Air Agency's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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## INDEPENDENT AUDITOR'S REPORT

### Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

#### **Northwest Clean Air Agency July 1, 2020 through June 30, 2022**

Board of Directors  
Northwest Clean Air Agency  
Mount Vernon, 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 Northwest Clean Air Agency, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Agency's financial statements, and have issued our report thereon dated July 11, 2023.

We issued an unmodified opinion on the fair presentation of the Agency's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Agency using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## **REPORT ON COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 Agency'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 Agency'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.

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

Pat McCarthy, State Auditor

Olympia, WA

July 11, 2023

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Northwest Clean Air Agency July 1, 2020 through June 30, 2022**

Board of Directors  
Northwest Clean Air Agency  
Mount Vernon, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Unmodified and Adverse Opinions**

We have audited the financial statements of the Northwest Clean Air Agency, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, as listed in the financial section of our report.

### **Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the Agency has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the Northwest Clean Air Agency, and its changes in cash and investments, for the years ended June 30, 2022 and 2021, on the basis of accounting described in Note 1.

### **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Northwest Clean Air Agency, as of June 30, 2022 and 2021, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

## **Basis for Unmodified and Adverse Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

## **Matter Giving Rise to Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the Agency in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and



*Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Supplementary Information**

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS Manual. These schedules is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2023 on our consideration of the Agency's internal control over financial reporting and on the 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 the effectiveness of the Agency's 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 Agency's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

July 11, 2023

## **FINANCIAL SECTION**

### **Northwest Clean Air Agency July 1, 2020 through June 30, 2022**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2022

Fund Resources and Uses Arising from Cash Transactions – 2021

Notes to Financial Statements – 2022

Notes to Financial Statements – 2021

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2022

Schedule of Liabilities – 2021

**Northwest Clean Air Agency**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended June 30, 2022**

**Beginning Cash and Investments**

308	Beginning Cash and Investments	3,176,747
388 / 588	Net Adjustments	-

**Revenues**

310	Taxes	-
320	Licenses and Permits	3,263,316
330	Intergovernmental Revenues	192,906
340	Charges for Goods and Services	949,947
350	Fines and Penalties	178,577
360	Miscellaneous Revenues	160,814
Total Revenues:		4,745,560

**Expenditures**

510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	4,638,244
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		4,638,244
Excess (Deficiency) Revenues over Expenditures:		107,316

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	272,382
591-593, 599	Debt Service	2,602
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		274,984

**Increase (Decrease) in Cash and Investments: (167,668)**

**Ending Cash and Investments**

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	3,009,079
50891	Unassigned	-
<b>Total Ending Cash and Investments</b>		<b>3,009,079</b>

**Northwest Clean Air Agency**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended June 30, 2021**

**Beginning Cash and Investments**

308	Beginning Cash and Investments	3,271,973
388 / 588	Net Adjustments	-

**Revenues**

310	Taxes	-
320	Licenses and Permits	2,999,705
330	Intergovernmental Revenues	329,335
340	Charges for Goods and Services	856,619
350	Fines and Penalties	64,540
360	Miscellaneous Revenues	160,294
Total Revenues:		4,410,493

**Expenditures**

510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	4,423,611
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		4,423,611
Excess (Deficiency) Revenues over Expenditures:		(13,118)

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	82,108
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		82,108

**Increase (Decrease) in Cash and Investments:** **(95,226)**

**Ending Cash and Investments**

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	3,176,747
50891	Unassigned	-
<b>Total Ending Cash and Investments</b>		<b>3,176,747</b>

**NORTHWEST CLEAN AIR AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
July 1, 2021 through June 30, 2022

**NOTE 1 – Summary of Significant Accounting Policies**

The Northwest Clean Air Agency (NWCAA) was incorporated on December 6, 1967 and operates under the laws of the State of Washington applicable to municipal corporations. The NWCAA is a special purpose government and regulates air quality and provides various clean air services to the public in Northwestern Washington. The NWCAA uses double-entry accounting, although its financial statements are prepared on a cash basis, which is a departure from generally accepted accounting principles (GAAP).

NWCAA reports financial activity in accordance with the *Cash Basis Budgeting, Accounting, and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are presented using classifications that are different from the ending net position classifications in GAAP.

A. **Fund Accounting and Fund Type**

NWCAA reports its activities in a single Proprietary Enterprise Fund type which accounts for operations that provide goods or services to the general public and are supported primarily through user charges. The Fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures.

B. **Basis of Accounting and Measurement Focus**

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law, the NWCAA also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. **Cash and Investments**

See Note 4, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Capital assets are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to the number of vacation leave days that can be accrued by the employee in a two-year period. Accrued and unused vacation leave is payable upon separation from employment, retirement, or death.

Sick leave may be accumulated up to 840 hours. For separation from employment due to retirement or death, an eligible employee or employee's estate may receive remuneration at a rate of one hour of compensation for each three hours of accrued sick leave.

Payments are recognized as expenditures when paid.

NOTE 2 – Budget Compliance

The NWCAA adopts annual appropriated budgets. The budget is appropriated at the fund level. The budget constitutes the legal authority for expenditures for the fund. Annual budget appropriations lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The Fiscal Year (FY) 2022 appropriated and actual expenditures for the legally adopted budgets were as follows:

<b>Fund</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenditures</b>	<b>Variance</b>
Operating	\$ 5,159,233	\$ 4,871,797	\$ 287,436
Supplemental Environmental Projects	218,640	41,431	177,209
Total	\$ 5,377,873	\$ 4,913,228	\$ 464,645

Budgetary adjustments exceeding \$20,000 of the appropriated budget for any expense category requires Board approval, per Resolution 473.

NOTE 3 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

The NWCAA followed the declarations ordered by the Governor, and further established an Infectious Disease Preparedness and Response Plan followed by a Safe Reopening Plan specific to NWCAA, its employees and the COVID-19 pandemic. Financial impacts and operational impacts resulting from the pandemic have been minimal to the Agency.

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

#### NOTE 4 – Deposits and Investments

Investments are reported at original cost. Deposits and investments by type at June 30, 2022, are as follows:

Type of deposit or investment	NWCAA's own deposits and investments	Deposits and investments held by Skagit County as agent for NWCAA	Total
Cash on hand	\$ 125	\$ -	\$ 125
Bank deposits	277,538	41,575	319,113
Bank money market	30,762	632,298	663,060
Local government investment pool	-	2,026,781	2,026,781
<b>Total</b>	<b>\$ 308,425</b>	<b>\$ 2,700,654</b>	<b>\$ 3,009,079</b>

It is NWCAA's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

#### Investments in the State Local Government Investment Pool (LGIP)

The NWCAA is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. All such investments are handled by and through the Skagit County Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

#### Custodial Credit Risk

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

All investments are insured, registered or held by the NWCAA or its agent in the governments name.



## NOTE 5 – Pension Plans

Substantially all NWCAA's full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution 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, a department within the primary government of the State of Washington, issues a publicly available Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2022, the measurement date of the PERS plans, the NWCAA's proportionate share of the collective net pension liabilities (assets), was as follows:

Plan	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 94,636	0.015442%	\$ 429,962
PERS 2/3	162,233	0.020194%	(748,951)

Only the net pension liabilities are reported on the Schedule 09.

In addition, NWCAA offers its employees a Money Purchase Pension Plan (MPPP) created in accordance with Internal Revenue Code Section 401 because NWCAA employees do not participate in Social Security. The plan was re-adopted by board resolution in 2015. The MPPP is administered by Mission Square Retirement. Employees contribute 3.00% of pre-tax wages and NWCAA contributes 7.65% of employee wages. For FY 2022, NWCAA contributed \$195,158 on behalf of its employees.

## NOTE 6 – Risk Management

Northwest Clean Air Agency is a member of the Enduris Washington (Pool). Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. For the Pool's fiscal year ending August 31, 2021, there were 539 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris' program provides for various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes: General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices liability; Property coverage, which includes: Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket

coverage; Named Position coverage; and an Identity Fraud reimbursement program. Pollution coverage is provided on a “claims made” coverage form. All other coverage is provided on an “occurrence” coverage form.

Members are responsible for a coverage deductible or co-pay on each covered loss. Each policy year members receive a Memorandum of Coverage (MOC) outlining the specific coverage, limits, and deductibles/co-pays that are applicable to them. In certain cases the Pool may allow members to elect to participate in the programs at limits, coverage, deductibles, and co-pays that are specific to their needs. Enduris is responsible for payment of all covered losses above the member retention, up to the Pool self-insured retention (SIR). Enduris acquires excess/reinsurance from unrelated insurance companies to cover losses above the Pool’s SIR up to the coverage maximum limit of liability.

Members make an annual contribution to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. There were no claim settlements in excess of the insurance coverage in any of the last three policy years.

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year and must give notice 60 days before renewal in order to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in process claims for the period they were a signatory to the Interlocal Governmental Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and administers the claims.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool’s members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for overseeing the business affairs of Enduris and providing policy direction to the Pool’s Executive Director.

#### NOTE 7 – Health & Welfare

The NWCAA is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2021, 262 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members.

The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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In October 2013, NWCAA received an extraordinary payment of \$4,376,226 from BP Cherry Point Refinery as a condition of permit approval. The NWCAA Board of Directors authorized these funds be used for greenhouse gas reduction projects to partially offset the permitted expansion at the BP Cherry Point Refinery.

Following a competitive selection process, the NWCAA Board has awarded \$3,923,543 to various agencies for local greenhouse gas reduction projects which are being completed over a multi-year period. The authorized budget and project expenditures for those projects is accounted for in a separate Supplemental Environmental Projects Fund. See Note 2 for the FY 2022 year's budget and expenditures.

**NORTHWEST CLEAN AIR AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
July 1, 2020 through June 30, 2021

**NOTE 1 – Summary of Significant Accounting Policies**

The Northwest Clean Air Agency (NWCAA) was incorporated on December 6, 1967 and operates under the laws of the State of Washington applicable to municipal corporations. The NWCAA is a special purpose government and regulates air quality and provides various clean air services to the public in Northwestern Washington. The NWCAA uses double-entry accounting, although its financial statements are prepared on a cash basis, which is a departure from generally accepted accounting principles (GAAP).

NWCAA reports financial activity in accordance with the *Cash Basis Budgeting, Accounting, and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are presented using classifications that are similar to the ending balance classification in GAAP.

A. **Fund Accounting and Fund Type**

NWCAA reports its activities in a single Proprietary Enterprise Fund type which accounts for operations that provide goods or services to the general public and are supported primarily through user charges. The Fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures.

B. **Basis of Accounting and Measurement Focus**

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law, the NWCAA also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. **Cash and Investments**

See Note 4, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Capital assets are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to the number of vacation leave days that can be accrued by the employee in a two-year period. Accrued and unused vacation leave is payable upon separation from employment, retirement, or death.

Sick leave may be accumulated up to 840 hours. For separation from employment due to retirement or death, an eligible employee or employee's estate may receive remuneration at a rate of one hour of compensation for each three hours of accrued sick leave.

Payments are recognized as expenditures when paid.

NOTE 2 – Budget Compliance

The NWCAA adopts annual appropriated budgets. The budget is appropriated at the fund level. The budget constitutes the legal authority for expenditures for the fund. Annual budget appropriations lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The Fiscal Year (FY) 2021 appropriated and actual expenditures for the legally adopted budgets were as follows:

<b>Fund</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenditures</b>	<b>Variance</b>
Operating	\$ 4,900,205	\$ 4,483,322	\$ 416,883
Supplemental Environmental Projects	225,000	22,397	202,603
Total	\$ 5,125,205	\$ 4,505,719	\$ 619,486

Budgetary adjustments exceeding \$20,000 of the appropriated budget for any expense category requires Board approval, per Resolution 473.

NOTE 3 – COVID-19 Pandemic

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

The NWCAA followed the declarations ordered by the Governor, and further established an Infectious Disease Preparedness and Response Plan followed by a Safe Reopening Plan specific to NWCAA, its employees and the COVID-19 pandemic. Financial impacts and operational impacts resulting from the pandemic have been minimal to the Agency.

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

#### NOTE 4 – Deposits and Investments

Investments are reported at original cost. Deposits and investments by type at June 30, 2021, are as follows:

Type of deposit or investment	NWCAA's own deposits and investments	Deposits and investments held by Skagit County as agent for NWCAA	Total
Cash on hand	\$ 125	\$ -	\$ 125
Bank deposits	59,126	24,564	83,690
Bank money market	412,944	1,004,025	1,416,969
Local government investment pool	-	1,675,963	1,675,963
<b>Total</b>	<b>\$ 472,195</b>	<b>\$ 2,704,552</b>	<b>\$ 3,176,747</b>

It is NWCAA's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

#### Investments in the State Local Government Investment Pool (LGIP)

The NWCAA is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. All such investments are handled by and through the Skagit County Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

#### Custodial Credit Risk

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

All investments are insured, registered or held by the NWCAA or its agent in the governments name.

## NOTE 5 – Pension Plans

Substantially all NWCAA's full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution 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, 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

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2021, the measurement date of the PERS plans, the NWCAA's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

Plan	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 123,874	0.016630%	\$ 203,091
PERS 2/3	202,226	0.021348%	(2,126,604)

In addition, NWCAA offers its employees a Money Purchase Pension Plan (MPPP) created in accordance with Internal Revenue Code Section 401 because NWCAA employees do not participate in Social Security. The plan was re-adopted by board resolution in 2015. The MPPP is administered by International City Managers Association Retirement Corporation. Employees contribute 3.00% of pre-tax wages and NWCAA contributes 7.65% of employee wages. For FY 2021, NWCAA contributed \$197,127 on behalf of its employees.

## NOTE 6 – Risk Management

Northwest Clean Air Agency is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2020, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.



Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$800 million per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is joint liability among the participating members.

The contract requires members to remain in the Pool for a minimum of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool and are administered in house.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Enduris did not have any claim settlements that exceeded the limits in the last 3 years.

#### NOTE 7 – Health & Welfare

The NWCAA is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of

Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2020, 262 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members.

The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

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**Northwest Clean Air Agency  
Schedule of Liabilities  
For the Year Ended June 30, 2022**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Employee Leave Liability	6/30/2022	415,915	9,307	-	425,222
264.30	Pension Liability	6/30/2022	203,091	226,871	-	429,962
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>619,006</b>	<b>236,178</b>	<b>-</b>	<b>855,184</b>
<b>Total Liabilities:</b>			<b>619,006</b>	<b>236,178</b>	<b>-</b>	<b>855,184</b>

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Schedule of Liabilities  
For the Year Ended June 30, 2021**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Employee Leave Liability	6/30/2021	369,182	46,733	-	415,915
264.30	Pension Liability	6/30/2021	915,397	-	712,306	203,091
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>1,284,579</b>	<b>46,733</b>	<b>712,306</b>	<b>619,006</b>
<b>Total Liabilities:</b>			<b>1,284,579</b>	<b>46,733</b>	<b>712,306</b>	<b>619,006</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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