



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Discovery Clean Water Alliance

For the period January 1, 2023 through December 31, 2023

Published June 10, 2024

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

June 10, 2024

Board of Directors
Discovery Clean Water Alliance
Vancouver, Washington

Report on Financial Statements

Please find attached our report on the Discovery Clean Water Alliance's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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

Discovery Clean Water Alliance January 1, 2023 through December 31, 2023

Board of Directors
Discovery Clean Water Alliance
Vancouver, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Discovery Clean Water Alliance, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements, and have issued our report thereon dated June 4, 2024.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Alliance's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Alliance's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described 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.

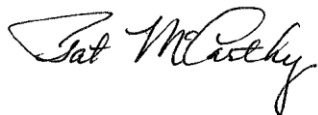
REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Alliance'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 Alliance's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

June 4, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Discovery Clean Water Alliance January 1, 2023 through December 31, 2023

Board of Directors
Discovery Clean Water Alliance
Vancouver, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Discovery Clean Water Alliance, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Discovery Clean Water Alliance, as of December 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Alliance 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 opinion.

Responsibilities of Management 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, and 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 Alliance'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 as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 Alliance'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 Alliance's ability to continue as a going concern for a reasonable period of time; and
- 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 4, 2024 on our consideration of the Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alliance'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 Alliance's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

June 4, 2024

FINANCIAL SECTION

Discovery Clean Water Alliance January 1, 2023 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2023

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2023

Statement of Revenues, Expenses and Changes in Fund Net Position – 2023

Statement of Cash Flows – 2023

Notes to Financial Statements – 2023

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023**

INTRODUCTION

Management of Discovery Clean Water Alliance (Alliance) and readers of the Alliance's financial statements are provided with this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2023.

The Alliance is a municipal corporation established under the Joint Municipal Utility Services Act (RCW 39.106.010). The Alliance contracts with Clark Regional Wastewater District (District) for Administrative Lead services. Administrative Lead services include executive and administrative services, such as agency coordination, clerk to the Board, public outreach and risk management services; financial and treasury services including preparation of operating and capital budgets, financial reporting, creation and compliance of financial policies, debt, and investment management, and accounts payable processing; and capital program management services including preparation of the capital plan, capital management policies, capital project delivery, and treatment capacity monitoring.

The following Management Discussion and Analysis are intended to serve as an introduction to the Alliance's basic financial statements, the notes to the financial statements, and, if applicable, any other supplementary information required as part of the basic financial statements.

The Alliance is legally required to adopt a budget per RCW 39.106.05. The Board of Directors adopts a biennial operating and capital budget. Budgets are increased or decreased as deemed necessary through Board-adopted budget amendments.

The Alliance's financial statements present a Special Purpose Government organized under the laws of the State of Washington, Revised Code of Washington (RCW) Chapter 39.106 – the Joint Municipal Utility Services Act (JMUSA). The Alliance is not a segment of any other local government, nor is it a component unit thereof. The financial statements are presented like a private-sector business.

The Alliance uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities (i.e., wastewater treatment service). The Alliance reports its activities as an enterprise fund, which is a type of proprietary fund.

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

The *Statement of Revenues, Expenses and Changes in Fund Net Position* displays the change in the Alliance's net position during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs regardless of the timing of related cash flows.

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

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023**

Financial Highlights

- For 2023, the assets and deferred outflows of the Alliance exceeded its liabilities by \$121.1 million. Of this amount, \$25.6 million is classified as unrestricted and may be used to meet the Alliance's ongoing obligations. This constitutes a total increase of \$3.8 million in net position from 2022, due to 2023 operating income.
- Regional Service Charges (RSCs) of \$18.2 million were billed to the City of Battle Ground and the District in 2023. This constitutes nearly all the operating revenues of the Alliance.
- The Alliance was charged \$7.0 million by other governments for treatment plant operator services. These services are provided to the Alliance through agreements with its Member agencies.

Assets, Deferred Outflows, Liabilities and Net Position

December 31	2023	2022	2022 to 2023 Change	%
<i>Assets</i>				
Current and other assets	\$ 50,710,193	\$ 62,464,786	\$ (11,754,593)	-19%
Capital assets	157,574,172	140,438,516	17,135,656	12%
Total assets	<u>208,284,365</u>	<u>202,903,302</u>	<u>5,381,063</u>	3%
Deferred Outflows	2,837,227	2,890,950	(53,723)	-2%
<i>Liabilities</i>				
Other liabilities	5,818,503	4,361,821	1,456,682	33%
Long-term liabilities	84,169,129	84,158,416	10,713	0%
Total liabilities	<u>89,987,632</u>	<u>88,520,237</u>	<u>1,467,395</u>	2%
<i>Net position</i>				
Net investment in capital assets	95,532,813	98,683,177	(3,150,364)	-3%
Unrestricted	<u>25,601,147</u>	<u>18,590,838</u>	<u>7,010,309</u>	38%
Total net position	<u>\$ 121,133,960</u>	<u>\$ 117,274,015</u>	<u>\$ 3,859,945</u>	

- The Alliance's structure results in a planned increase in total net position. RSCs are based on budget and are designed to cover (on a cash basis) operating expenses, debt service payments, and capital expenditures. Because capital expenditures exceeded depreciation expenses in 2023, the Alliance's net position increased.
- Current assets decreased by \$11.8 million primarily due to a decrease in non-current assets at the end of 2023 that resulted from a planned spend down of bond proceeds.

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Investment in capital assets includes construction work in progress, land, treatment plants, pump stations, transmission lines, machinery, and equipment. The Alliance's total net capital assets as of December 31, 2023, were \$157.6 million, an increase of \$17.1 million. Major capital asset additions include costs of \$16.9 million in 2023, for capital improvements to the Salmon Creek Wastewater Treatment Plant. For further explanations of the capital asset activity of the Alliance, please refer to Note 3, Capital Assets.

Long-Term Liabilities

- On July 14, 2022, the Alliance issued \$44.3 million in new revenue bonds to fund the expansion of the Salmon Creek Treatment Plant (SCTP). Principal payments on these bonds began in 2023.
- In 2020, the Alliance was awarded a \$10.0 million Public Works Board (PWB) loan. Through December 31, 2023, \$8.1 million has been drawn on the loan. Payments on this loan began in 2023.
- In 2023, long-term liabilities increased slightly from 2022, due to a combination of scheduled debt service payments of \$5.5 million and draws on the PWB loan originated in 2020.
- Loans payable of \$19.5 million at year-end include the following:
 - ❑ \$4.5 million for PWB loans granted for the Phase IV construction of the Salmon Creek Treatment Plant
 - ❑ \$14.8 million for PWB loan granted for the Phase V construction of the Salmon Creek Treatment Plant
 - ❑ \$0.2 million on the State Revolving Fund (SRF) loan used for Phase IV construction of the Salmon Creek Wastewater Management System
- Please refer to Note 5, Long-Term Liabilities, for more detailed information regarding long-term debt activity.

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023**

Revenues and Expenses

	2023	2022	2022 to 2023 Change	%
REVENUES				
Regional Service Charges	\$ 18,191,937	\$ 15,558,891	\$ 2,633,046	17%
Operating revenue - miscellaneous	46,947	43,077	3,870	9%
Non-operating - interest earnings	2,531,401	(6,902)	2,538,303	36776%
Total revenue	20,770,285	15,595,066	5,175,219	33%
EXPENSES				
Operating expenses	14,434,358	11,857,579	2,576,779	22%
Non-operating - interest expense	2,373,999	1,408,993	965,006	68%
Non-operating - miscellaneous	101,983	236,550	(134,567)	-57%
Total expenses	16,910,340	13,503,122	3,407,218	25%
CHANGE IN NET POSITION	3,859,945	2,091,944	1,768,001	85%
NET POSITION, January 1	117,274,015	115,182,071	2,091,944	2%
NET POSITION, December 31	\$ 121,133,960	\$ 117,274,015	\$ 3,859,945	3%

- Regional Service Charge (RSC) revenues in 2023 totaled \$18.2 million and were received from two Members, the District and Battle Ground. These RSCs represented 99.8% of the Alliance's operating revenues in 2023. RSCs increased by \$2.6 million (or 17%) in 2023 from 2022. The increase in RSC rates was primarily driven by a period of significant capital expenditures related to the improvement and expansion of the Salmon Creek Treatment Plant.
- Operating expenses in 2023 totaled \$14.4 million, an increase of \$2.6 million (or 22%) from 2022. Treatment plant operations expenses increased by \$1.1 million (or 19%) as a result of cost increases in operating the Salmon Creek Treatment Plant. Treatment plant operations represent 49% of total operating expenses, while depreciation represents 28% of total operating expenses.
- In 2023, the Alliance recorded interest and investment income of \$2.5 million, an increase of \$2.5 million from the loss reported in 2022. This is due to rising interest rates in 2023. The Alliance continues to actively manage and diversify its investments outside of the State and County pools to maximize interest earnings.

Economic Factors and 2023/2024 Budget

While economic uncertainties persisted through 2023, and continue into 2024, the Alliance continued to experience positive operating income while building reserves per the operational framework between Member agencies. At the same time, the Alliance has continued to formulate long-range financial forecasts and adopted biennial budgets to fund all Regional Asset operations, service debt outstanding on those assets, repair or replace existing wastewater collection/treatment infrastructure, and construct new infrastructure when necessary. The Alliance has budgeted \$31.7 million in 2023-2024 for capital improvements to the Salmon Creek Treatment Plant to meet the growing capacity demands for wastewater treatment services in the region.

**DISCOVERY CLEAN WATER ALLIANCE
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023**

Requests for Information

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

DISCOVERY CLEAN WATER ALLIANCE
STATEMENT OF NET POSITION
DECEMBER 31, 2023

	2023
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 20,917,412
Restricted cash and cash equivalents	3,481,677
Investments (at fair value)	6,032,541
Restricted investments (at fair value)	14,801,909
Investment interest receivable	133,161
Prepaid expenses	332,073
Due from other governments	652,810
Total current assets	<u>46,351,583</u>
NONCURRENT ASSETS	
Restricted investments (at fair value)	3,422,489
Contracts receivable	936,121
Capital assets not being depreciated:	
Land	336,301
Construction work in progress	35,347,152
Total capital assets, not being depreciated	<u>35,683,453</u>
Capital assets being depreciated:	
Collection and transmission system	30,101,579
Treatment plants	103,233,466
Pump stations	20,905,784
Equipment	80,670
Less: accumulated depreciation	<u>(32,430,780)</u>
Total capital assets being depreciated	121,890,719
Total noncurrent assets	<u>161,932,782</u>
Total assets	<u>208,284,365</u>
DEFERRED OUTFLOWS of RESOURCES	
Amounts related to asset retirement obligation	<u>2,837,227</u>
TOTAL DEFERRED OUTFLOWS of RESOURCES	<u>2,837,227</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	48,724
Interest payable	305,201
Accounts payable from restricted assets	4,408,305
Due to other governments	1,056,273
Sewer revenue bonds, current	3,393,537
Loans payable, current	2,601,387
Total current liabilities	<u>11,813,427</u>
NONCURRENT LIABILITIES	
Sewer revenue bonds, long term	56,462,368
Loans payable, long term	16,881,837
Asset retirement obligation	4,830,000
Total noncurrent liabilities	<u>78,174,205</u>
Total liabilities	<u>89,987,632</u>
NET POSITION	
Net investment in capital assets	95,532,813
Unrestricted	25,601,147
Total net position	<u>\$ 121,133,960</u>

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

**DISCOVERY CLEAN WATER ALLIANCE
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2023**

	<u>2023</u>
OPERATING REVENUES	
Regional Service Charges	\$ 18,191,937
Other operating revenue	<u>46,947</u>
Total utility operating revenues	<u>18,238,884</u>
OPERATING EXPENSES	
Administrative Lead services	940,739
Professional services	140,974
Treatment plant operations	7,035,749
Repairs and maintenance	1,930,250
Insurance	313,380
Miscellaneous	8,186
Depreciation	<u>4,065,080</u>
Total operating expenses	<u>14,434,358</u>
OPERATING INCOME	<u>3,804,526</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	2,531,401
Loss on disposal of capital assets	(101,983)
Interest expense	<u>(2,373,999)</u>
Total non-operating revenues (expenses)	<u>55,419</u>
CHANGE IN NET POSITION	3,859,945
TOTAL NET POSITION, January 1	<u>117,274,015</u>
TOTAL NET POSITION, December 31	<u>\$ 121,133,960</u>

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

DISCOVERY CLEAN WATER ALLIANCE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023

	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 18,223,390
Payments to suppliers	(9,507,988)
Receipts from other operating activities	46,947
Insurance proceeds	<u>423,935</u>
Net cash from operating activities	<u>9,186,284</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	5,646,867
Principal paid on capital debt	(5,477,598)
Interest paid on capital debt	(2,752,083)
Purchase and construction of capital assets	<u>(21,201,720)</u>
Net cash from capital and related financing	<u>(23,784,534)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(2,255,489)
Proceeds from maturing or called investments	18,115,000
Interest on investments	<u>2,001,428</u>
Net cash from investing activities	<u>17,860,939</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 3,262,689
 CASH AND CASH EQUIVALENTS, January 1	 <u>21,136,400</u>
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 24,399,089</u>
 RECONCILIATION TO NET POSITION	
Cash and Cash Equivalents	20,917,412
Restricted Cash and Cash Equivalents	<u>3,481,677</u>
Total Cash and Cash Equivalents	<u>24,399,089</u>

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

DISCOVERY CLEAN WATER ALLIANCE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023

	<u>2023</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Utility operating income (loss)	\$ 3,804,526
Adjustments to reconcile operating income to net cash flows from operating activities	
Depreciation expense	4,065,080
Amortization of deferred outflow	283,723
(Increase) decrease in accounts receivable	438,117
(Increase) decrease in prepaid expenses	(85,481)
(Increase) decrease in due from other governments	(406,664)
Increase (decrease) in accounts payable	30,710
(Increase) decrease in due to other governments	1,056,273
Total adjustments	<u>5,381,758</u>
Net cash from operating activities	<u>\$ 9,186,284</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Change in capital related accounts payable	359,226
Gain (loss) on disposal of capital assets	(101,983)
Increase (decrease) in fair value of investments	587,065

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

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

The financial statements of the Alliance have been prepared in conformity with Generally Accepted Accounting Principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

Reporting Entity – Discovery Clean Water Alliance (Alliance) was incorporated on January 4, 2013, under the empowerment of RCW 39.106 – the Joint Municipal Utility Services Act (JMUSA). In 2012, Clark County (County), Clark Regional Wastewater District (District), City of Battle Ground (Battle Ground), and City of Ridgefield (Ridgefield) reached an agreement on the appropriate form of a regional wastewater partnership to meet the needs of the community for the next generation. An Interlocal Formation Agreement (IFA) was signed on September 27, 2012, representing the culmination of five years of study and providing the foundation for the creation of the Alliance.

As required by GAAP, management has considered all potential component units in defining the reporting entity. Utilizing the criteria set forth by GASB for component units, the Alliance has evaluated all legal entities that would potentially qualify as a component unit and be included in the financial statements of the Alliance. The Alliance concludes it has no component units. The Alliance's financial statements include the financial position and results of operation of a single enterprise that the Alliance manages and has custodial responsibility over the assets and liabilities therein.

Basis of Accounting and Presentation – The accounting records of the Alliance are maintained in accordance with methods prescribed by the State Auditor under authority chapter 43.09. The Alliance uses the Uniform Chart of Accounts as prescribed within the Budgeting, Accounting, and Reporting System (BARS) Manual for Special Purpose Districts reporting in conformity with GAAP.

The statements of the Alliance are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

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

Cash & Cash Equivalents – It is the Alliance's policy to invest all temporary cash surpluses. For the purposes of the Statements of Net Position and Cash Flows, the Alliance considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. 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. See Note 2 for detailed information about the Alliance's deposits and investments.

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

The Alliance has restricted cash, cash equivalents, and investments of \$21,706,075, representing unspent bond proceeds from the 2022 Sewer Revenue Bonds. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the Alliance considers restricted resources to be used first.

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 Alliance. 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 in 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. See Note 2, Deposits and Investments, for additional information.

Investment Interest Receivable – Interest receivables represent interest revenue earned on investments that have not been received.

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

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

Contracts Receivable – Contracts receivable represent operating and repair and replacement reserves held by Clark Regional Wastewater District, which provides treatment plant operation services for the Alliance.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., treatment plants, pump stations, and transmission lines), are reported in a single enterprise fund. Capital assets are defined by the Alliance as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The Alliance records project costs in a construction work-in-progress account (CWIP) until completion. Depreciation is computed on capital assets when the assets are placed into service. Capital assets of the Alliance are depreciated using the straight-line method over the following estimated useful lives:

Treatment plant components	15-100 years
Pump station components	10-50 years
Collection and transmission system	75 years
Machinery, furniture and equipment	5-10 years

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

See Note 3, Capital Assets, for further information.

Deferred Outflows of Resources – The Alliance recognized a deferred outflow of resources related to an Asset Retirement Obligation. See Note 7 for detailed information.

Payables – Accounts payable and other current liabilities consist of amounts owed to private individuals or organizations for goods and services for amounts for which checks have not yet been prepared.

Long-Term Debt – See Note 5, Long-Term Liabilities.

Note 2 – Deposits & Investments

Deposits – The Alliance is legally authorized to invest in the types of investments included in the Revised Code of Washington (RCW) 36.29.020. All investments and deposits held on December 31, 2023, comply with the provisions of that code section and the Alliance’s investment policy adopted under Resolution 2019-01. Cash on hand at December 31, 2023, was \$3,558,885, held entirely in a checking account.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Alliance would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Alliance’s deposits are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC) or through the Securities Investor Protection Corporation (SIPC).

The Alliance does not have a deposit policy for custodial credit risk. No bank balances are exposed to custodial credit risk.

Investments – It is the Alliance’s policy to invest all temporary cash surpluses with the objective to provide maximum security at the highest market investment return while maintaining the ability to meet daily cash flow demands and conforming to state statutes governing the investment of public funds. The interest on these investments is prorated to the various funds.

Investments are subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk the Alliance may face should interest rate variances affect the fair value of investments. The Alliance’s investment policy (authorized under Resolution 2023-01) assists in limiting interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The investment policy limits investing in operating funds primarily to shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio not to exceed two and one-half years.

Investment Type	Fair Value (or Amortized	Investment Maturities (in Years)	
		Less than 1	1 - 5
Clark County Investment Pool	\$ 5,388,844	\$ 5,388,844	\$ -
Local Government Investment Pool	15,451,360	15,451,360	-
Federal National Mortgage Association	223,548	-	223,548
Federal Farm Credit Bank	1,006,481	-	1,006,481
U.S. Treasury Notes	23,026,910	20,834,450	2,192,460
	<u>\$ 45,097,143</u>	<u>\$ 41,674,654</u>	<u>\$ 3,422,489</u>
Investment by maturity		<u>92%</u>	<u>8%</u>

In addition to the interest rate risk disclosed above, the Alliance includes investments with fair value highly sensitive to interest rate changes.

Note 2 – Deposits & Investments (Continued)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Alliance's investment policy states that the Finance Director is empowered to invest in the security instruments authorized in Washington RCW 36.29.020. All investments held by the Alliance at year-end 2023 had a credit quality rating of AA+ by Standard and Poor's.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a failure of the counterparty, the Alliance would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Alliance's investment policy mitigates credit risk by establishing prequalifying requirements for the financial institutions, broker/dealers, intermediaries, and advisers with which the Alliance will do business. Alliance deposits and investments are either insured or held by an agent in the Alliance's name.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Alliance's investment policy has the following diversification constraints based on the total investment of funds:

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's, or Equivalent NRSRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	5.5 years
US Agency Obligations	100%	35%	N/A	5.5 years
Supranational Agency Notes	10%	5%	AA- / Aa3	5.5 years
Municipal Bonds (GO Only outside WA)	30%	5%	A- / A3 Short Term*	5.5 years
Corporate Notes	25%	3%* for AA-, 2%* for A-, A, A+	A- / A3	5.5 years
Commercial Paper		3%*	A1/ P1 Long Term A- / A3	270 days
Certificates of Deposit	10%	10%	Deposits in PDPC approved banks	5.5 years
Bank Time Deposits/Savings	15%	10%	Deposits in PDPC approved banks	N/A
County LGIP	100%	None	N/A	N/A
State LGIP	100%	None	N/A	N/A

*Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

**Short Term Ratings: Moody's - P1/MIG1/VMIG1. S&P - A-1/SP-1, Fitch F1

Note: Individual country limit of non-U.S./non-Canadian exposure is 2% of total portfolio.

Investments in Local Government Investment Pool (LGIP) – The Alliance is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the Pool and adopts rules. The State Treasurer is responsible for establishing the investment policy

Note 2 – Deposits & Investments (Continued)

for the Pool and reviews the policy annually, and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost, which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

Investments in Clark County Investment Pool (CCIP) – The Alliance is a participant in the Clark County Investment Pool (CCIP), an external investment pool operated by the County Treasurer. The Pool is not rated or registered with the SEC. Rather, oversight is provided by the Clark County Finance Committee in accordance with RCW 36.48.070. The Alliance reports its investments in the Pool at the fair value amount, which is the same as the value of the Pool per share.

The weighted average maturity of the CCIP is approximately one (1) year, with cash available to the Alliance on demand. The on-demand availability of these funds defines them as cash-equivalent liquid investments. Cash investments are not subject to interest rate risk reporting requirements as defined by GASB 31.

Investments Measured at Fair Value – The Alliance measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

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

On December 31, 2023, the Alliance had the following investments measured at fair value:

Note 2 – Deposits & Investments (Continued)

	Total	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)**	Significant Unobservable Inputs (Level 3)
Investment by Fair Value Level				
Clark County Investment Pool*	\$ 5,388,844			
Investment Securities				
Federal National Mortgage Association	223,548	-	223,548	-
Federal Farm Credit Bank	1,006,481	-	1,006,481	-
U.S. Treasury Notes	23,026,910	20,754,205	2,272,705	-
Total Investments measured at fair value	<u>29,645,783</u>	<u>20,754,205</u>	<u>3,502,734</u>	<u>-</u>

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

**Matrix pricing was used to measure fair value for Level 2 investments.

Investments Measured at Amortized Cost

Washington State Local Government Investment Pool	<u>\$ 15,451,360</u>
Total Investments measured at amortized cost	<u>\$ 15,451,360</u>

Summary of Deposit and Investment Balances – A reconciliation of deposits and investment balances as of December 31, 2023, is as follows:

Amount of Deposits with Private Financial Institutions	\$ 3,558,885
Deposits with State LGIP	15,451,360
Deposits with CCIP	5,388,844
Non-Pooled Investments	24,256,939
Total Deposits and Investments	<u>48,656,028</u>
Deposits	
Current:	
Cash and Cash Equivalents	24,399,089
Total Deposits	<u>24,399,089</u>
Investments	
Current:	
Short-term Investments	20,834,450
Noncurrent	
Long-term Investments	3,422,489
Total Investments	<u>24,256,939</u>
Total Deposits and Investments	<u>\$ 48,656,028</u>

Note 3 – Capital Assets

Capital assets activity for the year ended December 31, 2023, was as follows:

	Balance Jan. 1, 2023	Additions & Transfers	Retirements & Transfers	Balance Dec. 31, 2023
CAPITAL ASSETS - NONDEPRECIABLE:				
Land and land rights	\$ 336,301	\$ -	\$ -	\$ 336,301
Construction work-in-progress	27,740,841	21,302,719	13,696,408	35,347,152
Total capital assets - nondepreciable	28,077,142	21,302,719	13,696,408	35,683,453
CAPITAL ASSETS - DEPRECIABLE:				
Collection and transmission system	30,101,579	-	-	30,101,579
Treatment plants	89,683,600	13,696,408	146,542	103,233,466
Pump stations	20,905,784	-	-	20,905,784
Machinery, furniture and equipment	80,670	-	-	80,670
Total capital assets - depreciable	140,771,633	13,696,408	146,542	154,321,499
LESS ACCUMULATED DEPRECIATION:				
Collection and transmission system	(4,530,505)	(400,351)	-	(4,930,856)
Treatment plants	(17,493,745)	(2,515,156)	(44,559)	(19,964,342)
Pump stations	(6,338,065)	(1,145,506)	-	(7,483,571)
Machinery, furniture and equipment	(47,944)	(4,067)	-	(52,011)
Total accumulated depreciation	(28,410,259)	(4,065,080)	(44,559)	(32,430,780)
Total capital assets - depreciable, Net	112,361,374	9,631,328	101,983	121,890,719
Total capital assets, Net	\$ 140,438,516	\$ 30,934,047	\$ 13,798,391	\$ 157,574,172

Note 4 – Risk Management

The Alliance is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 72 members. The Pool's fiscal year is from November 1 through October 31.

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

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

Note 4 – Risk Management (Continued)

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$20,000,000
Earthquake	See (B) below	See (B) below	\$100,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000 - \$25,000	\$25,000	\$10,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$500,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$10,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$10,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence in Flood Zones A&V.			
B. Member deductible for earthquakes is 5%, subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber Liability is \$50,000, and where applicable, the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.			

Pool members are responsible for a deductible on each coverage. The Pool is responsible for the remainder of the self-insured retention listed in the table above, except where noted. 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.

Note 4 – Risk Management (Continued)

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, 2023, written notice must be in possession of the Pool by April 30, 2023). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period that the Alliance was a signatory to the Interlocal Governmental Agreement.

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

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director. As of December 31, 2023, there were no outstanding claims filed with the Pool that exceeded the Alliance deductible of \$25,000. The Alliance recognizes no potential liability for any additional settlements for outstanding future claims. The amount of settlements did not exceed insurance coverage in the last three years.

Note 5 – Long-Term Liabilities

Direct Placement Revenue Bonds – In June 2021, the Alliance issued \$13,325,000 in revenue bonds to refund outstanding 2015 revenue bonds and to fund capacity expansion at the Salmon Creek Treatment Plant. Regional Service Charge revenues provide the security for repayment of the 2021 revenue bonds. The 2021 revenue bonds have an interest rate ranging from 3.0% to 4.0%. Principal installments range from \$295,000 to \$1,645,000, with a final maturity date of December 1, 2041. In the event the Alliance defaults on a payment, a penalty of 4.0% per annum will be assessed. In 2023, the Alliance paid \$1,955,200 (\$1,555,000 principal and \$400,200 interest) on these bonds. The annual debt service requirements for these 2021 sewer revenue bonds are as follows:

2021 Sewer Revenue Bonds - from direct placement			
Year Ending December 31	Principal	Interest	Total Debt Service
2024	\$ 1,600,000	\$ 353,550	\$ 1,953,550
2025	1,645,000	305,550	\$ 1,950,550
2026	295,000	256,200	551,200
2027	305,000	244,400	549,400
2028	315,000	232,200	547,200
2029-2033	1,785,000	960,600	2,745,600
2034-2038	2,175,000	573,800	2,748,800
2039-2041	1,530,000	124,000	1,654,000
Total	<u>\$ 9,650,000</u>	<u>\$ 3,050,300</u>	<u>\$ 12,700,300</u>

The Alliance is required by bond covenants to maintain debt service coverage of its revenue-bonded debt of a minimum of 1.10 times the annual debt service on all outstanding bonds during the fiscal year. Debt service coverage requirements for the year ended December 31, 2023, were met.

In July 2022, the Alliance issued \$44,250,000 to fund capacity expansion at the Salmon Creek Treatment Plant and related capital projects. Regional Service Charge revenues provide the security for repayment of the 2022 revenue bonds. The 2022 revenue bonds have an interest rate of 5.0%. Principal installments range from \$1,335,000 to \$3,380,000, with a final maturity date of December 1, 2042. In the event the Alliance defaults on a payment, a penalty of 5.0% per annum will be assessed. In 2023, the Alliance paid \$3,547,500 (\$1,335,000 principal and \$2,212,500 interest) on these bonds. The annual debt service requirements for these 2022 sewer revenue bonds are as follows:

Note 5 – Long-Term Liabilities (Continued)

2022 Sewer Revenue Bonds - from direct placement			
Year Ending December 31	Principal	Interest	Total Debt Service
2024	\$ 1,405,000	\$ 2,145,750	\$ 3,550,750
2025	1,475,000	2,075,500	3,550,500
2026	1,550,000	2,001,750	3,551,750
2027	1,625,000	1,924,250	3,549,250
2028	1,710,000	1,843,000	3,553,000
2029-2033	9,915,000	7,844,000	17,759,000
2034-2038	12,650,000	5,105,000	17,755,000
2039-2041	12,585,000	1,611,500	14,196,500
Total	<u>\$ 42,915,000</u>	<u>\$ 24,550,750</u>	<u>\$ 67,465,750</u>

The Alliance is required by bond covenants to maintain debt service coverage of its revenue bonded debt of a minimum of 1.10 times the annual debt service on all outstanding bonds during the fiscal year. Debt service coverage requirements for the year ended December 31, 2023, were met.

Direct Borrowings – The State of Washington has a low-cost financing program that allows public entities in the state to finance public works (i.e., collection transmission facilities). This program is administered by the State of Washington Public Works Board (PWB). On January 1, 2015, six of these loans were transferred to the Alliance from the District and the City of Battle Ground. The loans from the state PWB will be repaid over a period not to exceed 20 years at the stated interest rates. The loans totaling \$34,000,000 was used to fund the construction on the Salmon Creek Wastewater Treatment Plant and capacity expansion. In the event the Alliance defaults on a payment, a monthly penalty of 1% (12% per annum) will be assessed.

On August 2, 2019, the Alliance was awarded a \$9,040,000 PWB loan (#PC20-96103-043) to fund odor control and other improvements to the Salmon Creek Treatment Plant. The term of the loan is 20 years with an interest rate of 1.08%. In the event, the Alliance defaults on a payment, a monthly penalty of 1% (12% per annum) will be assessed. The loan has been fully drawn as of December 31, 2023.

In August 2021, the Alliance was awarded a \$10,000,000 PWB loan (#PC22-96103-041) to fund capacity improvements to the Salmon Creek Treatment Plant. The term of the loan is 20 years with a maximum interest rate of 0.94%. In the event the Alliance defaults on a payment, a monthly penalty of 1% (12% per annum) will be assessed. The Alliance has received \$8,053,481 of loan proceeds as of December 31, 2023.

The following is a schedule of PWB loans containing a description of each loan, its use, and outstanding balance as of December 31, 2023:

Note 5 – Long-Term Liabilities (Continued)

	Loan Number	Notice of Completion	Maturity Date	Approved Loan Amount	Balance	Interest Rate
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-04-691-033	2004	7/1/2024	10,000,000	536,722	0.5%
Salmon Creek Treatment Plant - Preconstruction (Phase IV)	PW-05-691-PRE-116	2005	7/1/2025	1,000,000	105,263	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-05-691-003	2005	6/1/2025	10,000,000	1,102,683	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-06-962-005	2006	6/1/2026	4,000,000	633,333	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PC-08-951-009	2008	7/1/2028	8,000,000	2,105,263	0.5%
Salmon Creek Treatment Plant - Construction (Phase V)	PC-20-96103-043	N/A	6/1/2040	9,040,000	7,020,581	1.08%
Salmon Creek Treatment Plant - Construction (Phase V)	PC-22-96103-041	N/A	6/1/2042	10,000,000	7,790,059	0.94%
					<u>\$ 19,293,904</u>	

In 2023, the Alliance paid \$2,660,956 (\$2,527,699 principal and \$133,257 interest) on PWB loans. The annual debt service requirements for the PWB loans payable are as follows:

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

Year Ending December 31	Principal	Interest	Total Payments
2024	\$ 2,570,850	\$ 168,119	\$ 2,738,969
2025	2,058,429	151,141	2,209,570
2026	1,458,063	136,813	1,594,876
2027	1,250,590	125,473	1,376,063
2028	1,254,262	115,156	1,369,418
2029-2033	4,222,368	440,926	4,663,294
2034-2038	4,319,519	230,609	4,550,128
2039-2042	2,159,823	44,327	2,204,150
Total	<u>\$ 19,293,904</u>	<u>\$ 1,412,564</u>	<u>\$ 20,706,468</u>

In 2006, the District was granted a \$1,003,636 Washington State Revolving Fund (SRF) loan which was fully drawn and expended in 2007 on construction at the Salmon Creek Treatment Plant. This loan was transferred to the Alliance on January 1, 2015. In the event the Alliance defaults on a payment, a monthly penalty of 1% (12% per annum) will be assessed.

Note 5 – Long-Term Liabilities (Continued)

Debt service on the SRF loans in 2023 was \$66,025 (\$59,899 principal and \$6,126 interest). The annual debt service requirements for the SRF loan payable are as follows:

State Revolving Fund - from direct borrowing Salmon Creek Treatment Plant Construction			
Year Ending December 31	Principal	Interest	Total Payments
2024	\$ 30,538	\$ 2,474	\$ 33,012
2025	62,278	3,746	66,025
2026	63,917	2,108	66,025
2027	32,587	426	33,012
Total	<u>\$ 189,320</u>	<u>\$ 8,755</u>	<u>\$ 198,074</u>

Changes in long-term liabilities as a summary for the year ended December 31, 2023:

	Balance Jan. 1, 2023	Additions	Reductions	Balance Dec. 31, 2023	Due Within One Year
Directly placed sewer revenue bonds	\$ 55,455,000	\$ -	\$ 2,890,000	\$ 52,565,000	\$ 3,005,000
Directly placed sewer revenue bonds - issuance premiums	7,679,462	-	388,557	7,290,905	388,557
Loans payable - direct borrowing	16,423,955	5,646,867	2,587,598	19,483,224	2,601,387
Asset retirement obligation	4,600,000	230,000	-	4,830,000	-
Total long-term liabilities	<u>\$ 84,158,417</u>	<u>\$ 5,876,867</u>	<u>\$ 5,866,155</u>	<u>\$ 84,169,129</u>	<u>\$ 5,994,944</u>

Note 6 – Related Party Transactions

Discovery Clean Water Alliance and its Member Agencies – The Alliance has four Member agencies, the County, the District, Battle Ground, and Ridgefield, each providing one elected representative for the Board of Directors. In 2023, two of the Member agencies, the District and Battle Ground, paid monthly Regional Service Charges (RSCs) to the Alliance. RSCs paid in 2023 funded Alliance wastewater treatment operations. These RSCs were based on the 2023-2024 biennial budget, where budgeted revenues equal expenditures for the two-year period.

The Alliance has contracted with the District to perform Administrative Lead functions for the Alliance. Through the Administrative Lead Agreement, the Alliance has been incorporated in the State of Washington as a new municipal entity, registered with the Internal Revenue Service and Washington State Department of Revenue, and has had debt, investment, and financial policies adopted, as well as the preparation and adoption of the Alliance’s 2023-2024 biennial budgets and Operator Agreements between the Alliance and County, and the Alliance and District.

During 2023, the Alliance received, by Member, the following in RSCs:

	2023
Clark Regional Wastewater District	\$ 14,364,069
City of Battle Ground	3,827,868
Total Regional Service Charges	<u>\$ 18,191,937</u>

The Alliance was billed \$1,416,913 in 2023, from the District for administrative oversight. This amount represents \$733,796 for Administrative Lead Services (staff time) provided, as well as expenses of \$683,117 for professional consulting, IT support and various utilities expenses incurred by the District on behalf of the Alliance.

The Alliance contracts with the District for Regional Asset Operator Services. Effective June 1, 2022, contract operations of the Salmon Creek Treatment Plant transitioned from Clark County to the District. In 2023, the Alliance was billed \$6,102,529 by the District as contract operator. Per the Contract Operator Agreement, the District holds Alliance funds in order to have operational flexibility. At December 31, 2023, the Alliance records a contract receivable of \$936,121 for those funds.

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

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

Note 7 – Asset Retirement Obligations

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

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

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

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

Therefore, the acquiring of the RTP and the required decommissioning activities as determined by the Transfer Agreement results in an ARO. As a result, the Alliance has recognized an ARO of \$4,830,000 as of December 31, 2023, for the RTP. The Alliance obtained an estimate of project construction costs from an engineering consultant in 2016. Construction estimates have been adjusted by an annual escalation rate of 5%. The ARO includes construction, project delivery, and contingency costs. Decommissioning of the plant is estimated to occur by 2034. Funding is expected from a combination of Regional Service Charges collected from Clark Regional Wastewater District and Alliance reserves previously received from the City of Ridgefield. Flows to the RTP will be redirected to the SCTP.

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

Note 8 – Construction Commitments

Capital Projects – The Alliance has construction commitments resulting from active consultant and construction projects, including restoration and replacement projects, as of December 31, 2023, exceeding \$100,000 as follows:

Project	Total Awarded Contract Commitment	Spent to Date	Remaining on Contract
Salmon Creek Treatment Plant Phase 5A Package 2	19,964,955	14,093,571	5,871,384
Salmon Creek Treatment Plant Phase 5B Package 2	17,632,751	9,808,012	7,824,739
	<u>\$ 37,597,706</u>	<u>\$ 23,901,583</u>	<u>\$ 13,696,123</u>

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.

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