Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

Clark Regional Wastewater District

Clark County

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

Published June 4, 2015

Report No. 1014287

Washington State Auditor

June 4, 2015

Board of Commissioners
Clark Regional Wastewater District
Vancouver, Washington

Report on Financial Statements

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Clark Regional Wastewater District
Clark County
January 1, 2014 through December 31, 2014

Board of Commissioners
Clark Regional Wastewater District
Vancouver, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Clark Regional Wastewater District, Clark County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated May 15, 2015. As discussed in Note 2 to the financial statements, during the year ended December 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 69*, Government Combinations and Disposals of Government Operations*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 15, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clark Regional Wastewater District
Clark County
January 1, 2014 through December 31, 2014

Board of Commissioners
Clark Regional Wastewater District
Vancouver, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Clark Regional Wastewater District, Clark County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clark Regional Wastewater District, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operations*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 16 and retiree medical benefits – schedule of funding progress on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 15, 2015

FINANCIAL SECTION

Clark Regional Wastewater District
Clark County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Revenues, Expenses and Changes in Fund Net Position – 2014
Statement of Cash Flows – 2014
Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Retiree Medical Benefits – Schedule of Funding Progress – 2014

CLARK REGIONAL WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

INTRODUCTION

As management of the Clark Regional Wastewater District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

The following Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements, the notes to the financial statements and, if applicable, any other supplementary information required as part of the basic financial statements. Please refer to the accompanying Notes to the Financial Statements regarding capital asset and long-term liability activity, which can be found on pages 27-55.

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

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

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities (i.e. sewer service). The District reports its activities as an enterprise fund, which is a type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities; as such, the District uses the enterprise fund to account for all its activities.

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

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

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

Financial Highlights

- The District requested $9,871,562 in Public Works Trust Fund (PWTF) loan draws in 2014. Draw proceeds were used to fund design and construction activities of the Discovery Corridor Wastewater Transmission System (DCWTS) project, an estimated $27.0 million dollar project anticipated for completion by fiscal year end 2016.

- For 2014, the assets of the District exceeded its liabilities by $159,952,162. Of this amount, $37,021,168 is classified as unrestricted and may be used to meet the District's ongoing obligations. The District does not have any restricted funds at December 31, 2014.

- The District's change in net position was $17,381,798 and $2,066,977 for 2014 and 2013, respectively. The 2014 increase is mostly a result of the transfer of operations from the City of Ridgefield. Contributions from Developers and connection charges amounting to $5,618,773 for 2013 caused its increase in net position.

- Total liabilities increased $13,446,108 in 2014 from 2013. The main drivers for the increase in liabilities are, other than the DCWTS project, the transfer of liabilities from the City of Ridgefield, effective January 1, 2014, which include:

    - ❑ Ridgefield PWTF loan draws on the DCWTS project through 2013 of $707,855
    - ❑ PWTF loan for the T-7 Lift Station Force Main with a balance of $1,007,804
    - ❑ System Development Charge (SDC) credits of $1,955,710

- In 2014, the District made regular principal payments on its outstanding sewer revenue bonds of $1,129,993, PWTF loans of $1,409,834 and State Revolving Fund (SRF) loan of $47,414.

Assets, Liabilities and Net Position

December 31	2014	2013	2014 to 2013 Change	%
Assets				
Current and other assets	$ 44,955,737	$ 40,626,955	$ 4,328,782	10.7%
Capital assets (net of depreciation) and construction work in progress	162,224,667	135,725,542	26,499,125	19.5%
Total assets	207,180,404	176,352,497	30,827,907	
Liabilities				
Long-term liabilities	38,730,717	29,001,844	9,728,873	24.5%
Other liabilities	8,497,525	4,780,289	3,717,236	37.6%
Total liabilities	47,228,242	33,782,133	13,446,109	
Net position				
Net invested in capital assets	122,930,994	105,412,741	17,518,253	17.9%
Restricted	-	-	-	
Unrestricted	37,021,168	37,157,623	(136,455)	-0.4%
Total net position	$ 159,952,162	$ 142,570,364	$ 17,381,798	

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Investment in capital assets includes land, buildings, pump stations, collection and transmission lines, machinery and equipment, construction work in progress on collection and transmission systems and intangible assets. The District's total net capital assets as of December 31, 2014 were $162.2 million. This increase of $26.5 million or 19.5% from 2013 is due to the transfer of operations from City of Ridgefield and development of the DCWTS project, offset by normal depreciation and amortization. Major capital assets events during the fiscal year included the following:

- The District increased capital assets by a net total of $14,565,064 in the form of collection lines, pump stations, communications equipment and construction work in process with the transfer of the collection system from the City of Ridgefield to the District, effective January 1, 2014.

- The District expended a significant amount of resources in the DCWTS project throughout 2014. The District's construction work in progress balance on this project is $15,118,970, an increase of $13.4 million from 2013. As of December 31, 2014, the project is considered 50% complete with anticipation of full completion by end of 2016.

- During 2014, the District purchased a new bypass pump for $54,519 to replace the current portable bypass pump and ensure proper management of flow capacities of the Districts largest pump stations to bypass pumping in case of a system failure. The District spent $17,755 upgrading the office network to current technology which will allow for running multiple virtual servers and additional capacity to support growth of data and storage. The District also spent $25,278 on a new vehicle to replace an inspector vehicle with high mileage and maintenance expenses.

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

Long-Term Liabilities

- During 2014, the District increased its loan liabilities by a total of $10,129,971. This increase was driven by the 2014 draws for the DCWTS project, as well as the City of Ridgefield's loan liability for the DCWTS project and loan liability on the Gee Creek Trunk as transferred from the City of Ridgefield on January 1, 2014; offset by debt payments made throughout 2014.

- On November 28, 2012, the District issued $5,417,645 in sewer revenue bonds. The outstanding balance owed at year end 2014 is $4,418,987.

- On December 22, 2005, the District issued $14.0 million in sewer revenue bonds. The total proceeds, including the premium on the issuance, amounted to $14,382,147. The outstanding balance at year end 2014 on the bonds, plus premium totals, was $9,413,589.

- Loans payable of $25,461,096 at year end includes the following:
    - $172,144 for PWTF loans granted for the construction of the District's Glenwood and Hockinson pump stations
    - $923,820 Gee Creek Trunk Sewer T7 line transferred from the City of Ridgefield on January 1, 2014
    - $12,314,585 for Phase IV construction of the Salmon Creek Wastewater Management System (SCWMS)
    - $676,309 on the SRF loan used for Phase IV construction of the SCWMS
    - $11,374,238 PWTF loan for the DCWTS project

- Please refer to the Long-Term Liabilities, Note 3, pages 32-34, for more detailed information regarding long-term debt activity.

Revenues and Expenses

	2014	2013	2014 to 2013 Change	%
OPERATING REVENUES				
Charges for services	$ 17,396,279	$ 15,343,633	$ 2,052,646	13.4%
Permits	101,725	70,190	31,535	44.9%
Miscellaneous	667,866	479,837	188,029	39.2%
Interest and investment income	271,600	201,405	70,195	34.9%
Non-operating	47,304	15,444	31,860	206.3%
Total revenues	18,484,774	16,110,509	2,374,265	
Operating expenses	21,027,808	18,880,888	2,146,920	11.4%
Non-operating expenses	-	15,742	(15,742)	-
Interest expense	670,994	668,591	2,403	0.4%
Total expenses	21,698,802	19,565,221	2,133,581	
EXCESS (DEFICIENCY) BEFORE CONTRIBUTIONS	(3,214,028)	(3,454,712)	240,684	-7.0%
CAPITAL CONTRIBUTIONS	8,753,630	5,618,773	3,134,857	55.8%
SPECIAL ITEM - TRANSFER OF OPERATIONS	11,842,196	-	11,842,196	
CHANGE IN NET POSITION	17,381,798	2,164,061	15,217,737	703.2%
NET POSITION, January 1	142,570,364	140,503,387	2,066,977	1.5%
NET POSITION, December 31	$ 159,952,162	$ 142,667,448	$ 17,284,714	

- Service revenues increased in 2014 by $2.1 million or 13.4%. Effective January 1, 2014, the City of Ridgefield transferred to the District their collection system operations. With this transfer of operations the District's customer base grew by approximately 2,000 accounts. In addition, we realized increases in this revenue stream from completed development projects that are now connected to our system and an increase in the monthly rates in 2014 to $36.00/month per equivalent residential unit (ERU) from $35.00/month ERU in 2013.

- Actual ERU growth in customers was 1,022 and 675 ERUs for 2014 and 2013, respectively. The District saw a revenue increase of 44.9% in permitting for 2014 compared to 2013, driven by increased development in the District's service area. The District has budgeted for growth in 2015 to increase at a rate consistent with what the District budgeted in 2014.

- Interest and investment income in 2014 increased by 34.9% from 2013. The District continues to actively manage and diversify its investments outside of the State and County pools to maximize interest earnings.

- The District receives System Development Charge (SDC) revenues, based on a tiered system, in an effort to support economic development within the District service area. The revenue from this charge is used for new infrastructure and capital projects within the District service area. Connection fee revenues (SDCs) for 2014 totaled $4,885,217 compared to $3,010,250 in 2013. These charges did not change in 2014 from 2013 and we do not anticipate changes in these charges for 2015; however, with the addition of the Ridgefield collection system to the District service area there is an added, higher, charge for connections to the Ridgefield Treatment Plant. The charges per connection are as follows:

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

  The remaining increase in capital contributions is a result of increased donated capital. The District received $3,552,365 in 2014 compared to $2,314,360 in 2013. This 53.4% increase is a result of increased development within the District's service area.

- Operating expenses for 2014 increased over 2013 by $2.1 million or 11.4%. The main drivers for this increase are:

  - Depreciation and amortization costs increased by $519,212 over 2013, with the increased assets through District projects placed in service and assets transferred to the District from Ridgefield
  - Treatment contract services are the largest category of operating expense. It increased $1,025,367, 21.4%, mainly due to adding treatment costs at the City of Ridgefield
  - Labor and related benefits costs overall reflect an increase of $67,950 and $65,167, respectively, for 2014 due to an increase in the number of FTE employees working throughout the year

Cash Flows

Wastewater collection is a very capital and asset intensive utility service. The District's current system, inclusive of the Ridgefield service area is spread across 46 square-miles. Significant portions of the service area are undeveloped and require major infrastructure improvements and investments. Other portions of the system are over 50 years old and are beginning to reach their useful life. Growth in sewer service customers and potential service charge increases will help fund the next phase of capital expansion to the County and City of Ridgefield's Wastewater Management Systems. Growth and scheduled increases in rates will provide the necessary annual cash flow to cover operating activities and partially support future capital needs of the District.

Economic Factors and 2014 Budget

The District experienced a negative operating income for 2014, continuing to spend down some cash reserves while, at the same time, servicing debt for Phase IV capital expansion of the SCWMS. The District increased rates in 2014 and 2015 by $1.00/month ERU each year. These rate increases are primarily used to fund capital expansion and provide the cash flow for the related debt service.

The District has been fortunate in qualifying for low cost financing from the State of Washington Public Works Trust Fund (PWTF) loan (0.5%) and State of Washington State Revolving Fund (SRF) loan (2.6%) programs for major capital projects. This has allowed the District to keep its rates relatively steady for its ratepayers. The District will continue to work to stabilize future rate impacts, while at the same time pay for its ongoing operating, capital and replacement and restoration needs by providing a rate structure that will accommodate all three aspects of disbursements into the future. The District continues to experience healthy financial results, but future rate development and review remains a continued priority for District staff as we plan for the future with 20-year forecast modeling.

Sewer service revenues are projected to increase by $1.0 million, the primary drivers being an increase in the District's customer base of 1,022 ERU's throughout 2014 (above the 2,097 ERU increase transferred from City of Ridgefield), and a 2.8% increase in the monthly rate charged per ERU per month.

Requests for Information

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2014

ASSETS

	2014
CURRENT ASSETS	
Unrestricted current assets	
Cash and cash equivalents	$ 27,095,138
Investments (at fair value)	500,216
Receivables	
Customer accounts	1,500,214
Contracts (current and delinquent)	108,394
Special assessment receivable	860
Interest	32,241
Due from other governments	395,561
Prepaid expenses	365,799
Total unrestricted current assets	29,998,423
Total current assets	29,998,423
NONCURRENT ASSETS	
Investments (at fair value)	14,487,624
Contracts receivable	419,528
Unamortized bond insurance, net	50,162
Total long-term assets	14,957,314
Capital assets not being depreciated:	
Land and land rights	578,745
Construction work in progress	19,142,135
	19,720,880
Capital assets being depreciated:	
Buildings	3,727,071
Improvements other than buildings	136,839,627
Equipment	2,681,185
Less: accumulated depreciation	(39,973,784)
	103,274,099
Capital assets being amortized:	
Intangible assets, including future treatment capacity rights	85,750,669
Less: accumulated amortization	(46,520,981)
	39,229,688
Total noncurrent assets	177,181,981
Total assets	$ 207,180,404

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2014

LIABILITIES AND NET POSITION

	2014
CURRENT LIABILITIES	
Warrants payable	$ 3,804,425
Accounts payable	515,035
Loans payable	1,979,886
Interest payable	105,263
Revenue collected in advance	428,830
SDC credits	302,000
Construction deposits	134,221
Compensated absences	33,717
Sewer revenue bonds, net of unamortized bond premium	1,194,148
Total current liabilities	8,497,525
NONCURRENT LIABILITIES	
Compensated absences	340,921
Other postemployment benefits (OPEB)	948,647
SDC credits	1,321,510
Loans payable	23,481,211
Sewer revenue bonds, net of unamortized bond premium	12,638,428
Total noncurrent liabilities	38,730,717
Total liabilities	47,228,242
NET POSITION	
Net investment in capital assets	122,930,994
Unrestricted	37,021,168
Total net position	$ 159,952,162

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2014

	2014
OPERATING REVENUES	
Charges for services	$ 17,396,279
Permits	101,725
Other operating revenue	667,866
Total utility operating revenues	18,165,870
OPERATING EXPENSES	
Salaries and wages	3,137,875
Personnel benefits	1,429,169
Supplies	469,399
Professional services	513,267
Insurance	106,357
Treatment contract services	5,819,114
Taxes	507,068
Other operating expense	900,290
Depreciation and amortization	8,145,269
Total operating expenses	21,027,808
OPERATING INCOME (LOSS)	(2,861,938)
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	271,600
Other non-operating revenue	47,304
Interest expense	(670,994)
Total non-operating revenue (expenses)	(352,090)
INCOME BEFORE CONTRIBUTIONS	(3,214,028)
CAPITAL CONTRIBUTIONS	8,753,630
SPECIAL ITEM - TRANSFER OF OPERATIONS	11,842,196
CHANGE IN NET POSITION	17,381,798
TOTAL NET POSITION, January 1	142,570,364
TOTAL NET POSITION, December 31	$ 159,952,162

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

	2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 17,856,533
Payments to suppliers	(8,087,977)
Payments to employees	(4,414,824)
Other reimbursements	(664,682)
Other revenues	409,644
Net cash from operating activities	5,098,694
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital grants	44,389
Capital contributed by assessments	2,661
Receipts for future system improvements	6,212,979
Proceeds from sale of capital assets	500
Proceeds from capital loans	9,871,564
Principal paid on long-term debt	(2,587,243)
Interest paid on long-term debt	(666,961)
Acquisition and construction of capital assets	(14,401,326)
Net cash from capital and related financing	(1,523,437)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(9,459,241)
Proceeds from maturing or called investments	5,449,386
Interest on investments	257,364
Interest on assessments	302
Interest on contracts	29,189
Net cash from investing activities	(3,723,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(147,743)
CASH AND CASH EQUIVALENTS, January 1	27,242,881
CASH AND CASH EQUIVALENTS, December 31	$ 27,095,138

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

CLARK REGIONAL WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Utility operating income (loss)	$ (2,861,938)
Adjustments to reconcile operating income to net from operating activities	
Depreciation and amortization expense	8,145,269
(Increase) decrease in accounts receivable	(118,296)
(Increase) decrease in due from other governments	(317,006)
(Increase) decrease in prepaid expenses	(156,887)
Increase (decrease) in warrants payable	342,811
Increase (decrease) in accounts payable	130,539
Increase (decrease) in accrued employee benefits	147,276
Increase (decrease) in revenue collected in advance	(331,896)
Non-operating revenues	118,822
Total adjustments	7,960,632
Net cash from operating activities	$ 5,098,694
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Contributions of capital assets from developers or governments	3,552,365
Increase (decrease) in fair value of investments	(13,663)
Debt assumed from transfer of operations	(1,715,658)
System development credits from transfer of operations	(1,955,710)
Capital assets from transfer of operations	14,565,064
Issuance (receipt) of capital contract receivable	472,003

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

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

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

The accounting policies of the District conform to Generally Accepted Accounting Principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from GAAP):

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

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

2. A separate legal entity having legal autonomy to act within its statutory purpose; and

3. Financial accountability is focused on the independent elected governing body and such governing body has the autonomy, authority to approve and modify its budget or to set rates or charges to maintain its fiscal independence.

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

Basis of accounting and presentation – The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under authority chapter 43.09. The District uses the Uniform Chart of Accounts as prescribed within the Budgeting, Accounting and Reporting System (BARS) Manual for Water and Sewer Districts reporting in conformity with GAAP. The District's financial statements have been prepared in conformity with GAAP.

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

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

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

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

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

Investments – Investments are reported at fair value on quoted market prices for securities purchased by the District and as reported by the County and State local government investment pools in which the District participates. 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 investment earnings. Realized gains or losses on the maturity or disposition of securities are not separately disclosed.

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

Contracts and special assessment receivables are related to construction costs, as well as any applicable financing costs corresponding to such sanitary sewer construction for a particular property or group of properties. Contracts and special assessments are provided under state statutes and direct the process in which the District extends sanitary sewer services to properties. Contracts and special assessments are recorded as an enforceable lien on the property when they are levied. These receivables consist of current, delinquent and deferred billed principal with related interest and penalties. As of December 31, 2014, delinquent contract and special assessment receivables were $43,941.

Capital assets – The District's capital assets include but are not limited to land, buildings, treatment capacity rights, construction work in progress, machinery, equipment, furniture and software. See Note 4 on pages 35 through 36 for detailed information about the District's capital assets.

Compensated absences – Accumulated but unpaid compensated absences (vacation and sick leave) are recorded as liabilities as earned. Vacation may accumulate up to a maximum of 360 hours or, for those restricted to contracts, the contract amount, although the maximum compensable payout allowed is 240 hours. Sick leave earned, vested and unused by District employees is compensable at 50% of its value upon voluntary termination, retirement or death and is also recorded as a District liability. Sick leave may accumulate beyond 960 hours for an employee; however, 50% of 960 hours is the maximum payout allowed. Total accrued unpaid compensated absences (vacation and sick leave) amounted to $374,638 at December 31, 2014.

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

Intangible assets – The District currently recognizes its future treatment capacity rights in Clark County's Salmon Creek Treatment Plant as a component of the District's net capital assets, in compliance with GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." Intangible assets, software and future treatment capacity rights, are amortized over periods of 5 years and 20 years, respectively, using the straight line method.

Note 2 – Accounting and Reporting Changes / Transfer of Operations

The District implemented GASB 69, *Government Combinations and Disposals of Government Operations*. The regional study efforts over the last several years identified an opportunity for optimizing the local collection system services for the public. In particular, the District and the City of Ridgefield (Ridgefield) wastewater collection systems were found to have mutually beneficial characteristics that resulted in the highest services levels at the lowest cost over the long term if the two systems could be integrated in to a single operating unit. The Ridgefield collection system officially transferred operations to the District as of January 1, 2014. The collection system transfer is defined in GASB 69 as a *transfer of operations* type of government combination.

This standard states in part, the following,

- "This statement established the accounting and financial reporting standards for all government combinations".
- "For transfers of operations the effective transfer date is the date that the transferee government obtains control of the assets and becomes obligated for the liabilities".
- "Implementation of the standard requires the net position assumed by the continuing transferee government (the District) be reported as a special item".

The District and Ridgefield have worked closely together to ensure accuracy of all financial data. As a result of the transfer of operations the District has recognized the following assets, liabilities and net position:

Transferred Assets (Net)	
Cash Reserves	$ 948,501
Total Current Assets	948,501
Pump Stations	350,734
Sewer Lines	14,164,204
Equipment	50,126
Total Capital Assets	14,565,064
Total Transferred Assets (Net)	$ 15,513,565
Transferred Liabilities	
Long-term debt	$ 1,715,659
SDC Credits	1,955,710
Total Liabilities	$ 3,671,368
Net Position of Transferred collection system operation	
Net Investment	$ 11,842,196

GASB 69 allows for changes in different, but acceptable, accounting methods in the transfer of governmental operations. To maintain consistency with District assets of similar type, the District has adjusted the estimated useful life of the collection system assets transferred from Ridgefield. To compute useful life remaining, the District subtracted the life used since the purchase and installation of the asset from the estimated useful life per the District's fixed asset policies. Depreciation will be computed based on the carrying value of the asset at the time of transfer using the straight-line method over the adjusted useful life remaining at the time of transfer. The table below shows the change in estimated useful life by asset category.

ASSETS	RIDGEFIELD LIFE	DISTRICT LIFE
Pumps	20	20
Pump Stations	75	50
Force and Gravity Lines	75	50
Communication Equipment	20	10

Note 3 – Long-Term Liabilities

Bonds – Revenue bonds are authorized and adopted by the Board of Commissioners for construction of capital additions. Sewer revenues of the District provide the security for repayment of District debt.

Loans – The State of Washington has a low-cost financing program that allows public entities in the state to finance public works (i.e. collection transmission facilities). This program is administered by the State of Washington Public Works Trust Fund (PWTF) Board, who has approved nine loans to the

District through 12/31/2014. Loans from the state PWTF will be repaid over a period not to exceed 20 years at the stated interest rates.

Construction was funded through use of these loans as follows:

- Glenwood and Hockinson pump station projects with loans, issued notices of completion and final draws were executed in 1998 and 1999, respectively.
- Gee Creek Trunk Sewer project with loans, issued notices of completion and final draws were executed by Ridgefield in 2008. This loan was transferred to the District on January 1, 2014, as part of the collection system transfer of operations (see Note 2 for details).
- Salmon Creek Treatment Plant loans, notices of completion have been filed for each of the 2003, 2004, 2005 and 2008 PWTF loans, totaling $20,000,000, and the funds are fully drawn down.
- Discovery Corridor Wastewater Transmission System is anticipated for completion in 2016. The District and Ridgefield were each directly approved for $10,000,000 loans. The total $20,000,000 of approved loans on the project will fund design and construction activities. The initial loan draws were made in June 2013 and July 2013, respectively. On January 1, 2014, the City's loan was transferred to the District as part of the collection system transfer of operations (see Note 2 for details). As of December 31, 2014, the District has drawn $1,492,776 from the loan directly issued to the District and fully drawn the loan transferred from Ridgefield.

On the following page is a schedule of loans containing a description of each loan, its use, and outstanding balance as of December 31, 2014:

Public Works Trust Fund Loans	Loan Number	Notice of Completion	Approved Loan Amount	Balance	Interest Rate
Glenwood Pump Station	PW-5-95-791-010	September 1998	$ 2,185,960	$ 116,404	1.0%
Hockinson Pump Station	PW-5-96-791-018	September 1999	502,670	55,740	1.0%
Gee Creek Trunk Sewer	PW-05-691-047	February 2008	1,597,606	923,820	1.0%
Salmon Creek Treatment Plant - Preconstruction (Phase IV)	PW-03-691-PRE-107	October 2003	1,000,000	473,685	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PW-04-691-033	May 2004	10,000,000	5,367,217	0.5%
Salmon Creek Treatment Plant - Preconstruction (Phase IV)	PW-05-691-PRE-116	June 2005	1,000,000	578,948	0.5%
Salmon Creek Treatment Plant - Construction (Phase IV)	PC-08-951-009	March 2008	8,000,000	5,894,737	0.5%
Discovery Corridor Wastewater Transmission System	PC-12-951-034	N/A	10,000,000	9,949,917	0.5%
Discovery Corridor Wastewater Transmission System	PC-13-961-040	N/A	10,000,000	1,424,320	0.5%
				$ 24,784,788	

For 2014, the District paid $1,495,511 ($1,409,834 principal and $85,677 interest) on these PWTF loans. The annual debt service requirements for the PWTF loans payable are as follows:

	State of Washington - Public Works Trust Fund Loans											
	Glenwood Pump Station		Hockinson Pump Station		Gee Creek Trunk Sewer		SCWMS*		DCWTS**		Total	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 116,404	$ 1,164	$ 27,870	$ 557	$ 83,984	$ 9,238	$ 1,063,038	$ 61,573	$ 664,418	$ 43,436	$ 1,955,714	$ 115,969
2016	-	-	27,870	279	83,984	8,398	1,063,038	56,258	664,418	53,549	1,839,310	118,484
2017	-	-	-	-	83,984	7,559	1,063,038	50,943	664,418	50,227	1,811,440	108,728
2018	-	-	-	-	83,984	6,719	1,063,038	45,627	664,418	46,905	1,811,440	99,251
2019	-	-	-	-	83,984	5,879	1,063,038	40,312	664,418	43,583	1,811,440	89,774
2020-2024	-	-	-	-	419,916	16,797	5,262,556	121,833	3,322,091	168,083	9,004,563	306,713
2025-2029	-	-	-	-	83,984	840	1,736,841	21,316	3,322,091	85,031	5,142,916	107,186
2030-2034	-	-	-	-	-	-	-	-	1,407,965	11,153	1,407,965	11,153
Total	$ 116,404	$ 1,164	$ 55,740	$ 836	$ 923,820	$ 55,429	$12,314,587	$ 397,862	$11,374,237	$ 501,967	$24,784,788	$ 957,258

* Salmon Creek Wastewater Management System
** Discovery Corridor Wastewater Transmission System

In 2006, the District was granted a $1,000,000 Washington State Revolving Fund (SRF) loan which was fully drawn and expended in 2007. Below is a schedule with a description of the loan and its use:

State Revolving Fund	Loan Number	Notice of Completion	Approved Loan Amount	Balance	Interest Rate
Salmon Creek Treatment Plant - Construction (Phase IV)	L0700014	March 2007	$ 1,000,000	$ 676,309	2.6%

Debt service on this loan for 2014 totaled $66,025 ($47,414 principal and $18,611 interest). The annual debt service requirements for this SRF loan payable are as follows:

	State of Washington - State Revolving Fund Loan		
Year	Principal	Interest	Payments
2015	$ 48,661	$ 17,364	$ 66,025
2016	49,942	16,083	66,025
2017	51,256	14,769	66,025
2018	52,604	13,421	66,025
2019	53,988	12,036	66,025
2020-2024	292,013	38,111	330,124
2025-2026	127,845	4,205	132,050
Total	$ 676,309	$ 115,989	$ 792,298

Revenue Bonds – The District issued $14,000,000 in sewer revenue bonds in December 2005 to help finance Phase IV capital construction costs of the Salmon Creek Wastewater Management System. The total proceeds, including premium on the issuance, amounted to $14,382,147. The bond proceeds were fully drawn and expended by 2007 to fund construction costs. These bonds have an interest rate of 4.4357%. In compliance with bond covenants of this issuance an arbitrage rebate calculation was performed by AMTEC in 2010. The results of the analysis determined that the District was not required to rebate any arbitrage profit to the IRS.

Debt service on the loan for 2014 totaled $1,092,665 ($625,000 principal and $467,665 interest). The annual debt service requirements for these sewer revenue bonds are as follows:

	2005 Sewer Revenue Bonds		
Year	Principal	Interest	Total Debt Service
2015	$ 660,000	$ 436,415	$ 1,096,415
2016	685,000	406,715	1,091,715
2017	715,000	379,315	1,094,315
2018	750,000	343,565	1,093,565
2019	790,000	306,065	1,096,065
2020-2024	4,560,000	908,288	5,468,288
2025	1,045,000	48,593	1,093,593
Total	$ 9,205,000	$ 2,828,956	$ 12,033,956

The District issued sewer revenue bonds totaling $5,417,645 in November 2012. Debt service on the loan for 2014 totaled $600,000 ($504,993 principal and $95,007 interest). These bonds have an interest rate of 1.98%. Proceeds were used to reimburse the District for reserves used to retire Clark County's 2001 sewer revenue bonds. The annual debt service requirements for these 2012 sewer revenue bonds are as follows:

	2012 Sewer Revenue Bonds		
Year	Principal	Interest	Total Debt Service
2015	$ 515,041	$ 84,959	$ 600,000
2016	525,289	74,711	600,000
2017	535,741	64,259	600,000
2018	546,402	53,598	600,000
2019	557,274	42,726	600,000
2019-2022	1,739,240	60,759	1,799,999
Total	$ 4,418,987	$ 381,012	$ 4,799,999

Changes in long-term liabilities as a summary for the year ended December 31, 2014:

	Balance Jan. 1, 2014	Additions	Reductions	Balance Dec. 31, 2014	Due Within One Year
Compensated absences	$ 346,868	$ 333,396	$ 305,626	$ 374,638	$ 33,717
Other post employment benefits	829,141	119,506		948,647	
Loans payable	15,331,125	11,587,219	1,457,247	25,461,097	1,979,886
Sewer revenue bonds					
2005 sewer revenue bonds	9,830,000		625,000	9,205,000	660,000
For issuance and premium	227,696		19,107	208,589	19,107
2012 sewer revenue bonds	4,923,980		504,993	4,418,987	515,041
Total long-term liabilities	$ 31,488,810	$ 12,040,121	$ 2,911,973	$ 40,616,959	$ 3,207,752

Note 4 – Capital Assets

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

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

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

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

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

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

The following schedule of capital assets is recorded at historical costs with any related additions due to purchases or utility plant brought into service. In 2014, the District increased its CWIP account by $17,366,915 and incurred $16,833,564 in CWIP project costs (i.e. pump stations, pump station improvements, force mains and treatment plant expansion) of which $11,477,064 or 68% were on the Discovery Corridor Wastewater Transmission System (DCWTS) project. In addition to the CWIP costs incurred, Ridgefield transferred CWIP of $533,351 on the DCWTS and North Junction Pump Station projects as part of the collection system transfer effective January 1, 2014. The District transferred $1,959,047 from CWIP into service.

The District and the City of Battle Ground, through an Interlocal Agreement, own 100% of the treatment capacity rights of the Salmon Creek Treatment Plant, owned by Clark County, with the District having the majority share. This intangible asset, per GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets,*" is recognized in our capital assets as "future treatment capacity rights," at a value at December 31, 2014 of $39,173,804.

Capital assets activity for the year ended December 31, 2014, is as follows:

	Balance Jan. 1, 2014	Additions & Transfers	Retirements & Transfers	Balance Dec. 31, 2014
CAPITAL ASSETS - NONDEPRECIABLE:				
Land and land rights	$ 578,745	$ -	$ -	$ 578,745
Construction work-in-progress	3,731,267	17,366,915	1,956,047	19,142,135
Total capital assets - nondepreciable	4,310,012	17,366,915	1,956,047	19,720,880
CAPITAL ASSETS - DEPRECIABLE:				
Collection and transmission system	107,738,933	17,537,016	-	125,275,949
Buildings	3,727,071	-	-	3,727,071
Pumping stations	10,026,688	1,536,990	-	11,563,678
Machinery, furniture and equipment	2,533,507	147,678	-	2,681,185
Intangible assets, including future treatment capacity rights	85,738,827	11,842	-	85,750,669
Total capital assets - depreciable	209,765,026	19,233,526	-	228,998,552
LESS ACCUMULATED DEPRECIATION:				
Collection and transmission system	(31,719,462)	(2,639,370)	-	(34,358,832)
Buildings	(1,168,055)	(81,158)	-	(1,249,213)
Pumping stations	(2,023,181)	(238,685)	-	(2,261,866)
Machinery, furniture and equipment	(1,965,319)	(138,554)	-	(2,103,873)
Intangible assets, including future treatment capacity rights	(41,473,479)	(5,047,502)	-	(46,520,981)
Total accumulated depreciation	(78,349,496)	(8,145,269)	-	(86,494,765)
Total capital assets - depreciable, Net	131,415,530	11,088,257	-	142,503,787
Total capital assets, Net	$ 135,725,542	$ 28,455,172	$ 1,956,047	$ 162,224,667

Note 5 – Cash and Cash Equivalents and Investments

The District is legally authorized to invest in the types of investments included in the Revised Code of Washington (RCW) 36.29.020. All of the investments and deposits held at December 31, 2014, comply with the provisions of that code section and with the District's investment policy found within District Code Chapter 3.20. The District's deposits and investments are managed daily by the District Finance Director/Treasurer.

Cash and Cash Equivalents – The District deposits and certificates of deposit are entirely insured by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a municipal financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC) or through the Securities Investor Protection Corporation (SIPC). The District Code 3.20.010 provides that whenever there are more than sufficient funds or cash balances to meet current expenses payable, a portion of such funds or balances as deemed expedient may be invested as either short term or long term investments.

For short term investments, cash equivalents, the District utilizes both the Washington State Local Government Investment Pool (LGIP) and Clark County Investment Pool (CCIP). The LGIP is classified as an unrated 2a-7 investment pool per the Securities and Exchange Commission. The CCIP is also an unrated fund. The weighted average maturities of the LGIP and CCIP are less than three (3) months and approximately one (1) year, respectively, with cash available to the District on demand. The on demand availability of these funds defines them as cash equivalent liquid investments and not subject to interest rate risk. Cash investments are not subject to interest rate risk or any market value reporting requirement as defined by GASB 31. All LGIP investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposits, meaning credit risk is very limited. The investments are either fully insured or fully held by a third party custody provider in the name of the LGIP. The LGIP is audited by the Washington State Auditor's Office and regulated by Washington RCWs and the LGIP Advisory Committee. The CCIP is overseen by the Clark County Finance Committee and is audited annually by the Washington State Auditor's Office and regulated by Washington RCWs.

As of December 31, 2014, the District's cash and cash equivalents are as follows:

	2014
Cash and cash equivalents:	
Bank depository and checking accounts	$ 1,173,065
Petty cash / cash drawers	1,000
Washington state local government investment pool	4,956,680
Clark County investment pool	20,964,393
Total cash and cash equivalents and investments	$ 27,095,138

Investments – The District Code 3.20.010 provides that whenever there are more than sufficient funds or cash balances to meet current expenses payable, a portion of such funds or balances as deemed expedient may be invested as either short term or long term investments.

It is the District's policy to invest funds in a manner that:

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

The District's investment policy limits to twenty-five percent (25%) any one type of issuer of security, but excludes this limitation in relation to obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government, as well as the Washington State Local Government Investment Pool (LGIP) and Clark County Investment Pool. Investments in securities issued by U.S. government-sponsored enterprises, repurchase agreements, banker's acceptances, certificates of deposits and notes of designated public depositories are held to this limitation.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. The level of custodial credit risk relates to the level of insurance a financial institution will provide if financial difficulties were to occur that would affect District deposits. The amount of collateral a financial institution will pledge as security for the deposits and the level of creditworthiness the financial institution has with regard to such security will determine the level of custodial credit risk that exists. The District at year-end did not have any security lending or reverse repurchase agreements. District deposits and investments are either insured or held by an agent in the District's name.

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

As to credit risk, which is a risk that an issuer of an investment will not fulfill its obligations, the District's investment policy states the Finance Director is empowered to invest in the security instruments authorized in Washington RCW 36.29.020. The District invests in no more than twenty-five percent (25%) of any one type of issuer except as stated above. All investments held by the District at year-end 2014 had a credit quality rating of AA+ by Standard and Poor's.

In following GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*," the District has chosen to use the segmented time distribution format and include the credit ratings of the security issuers with regard to its investments as of December 31, 2014.

December 31, 2014

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Washington State Local Government Investment pool	$ 4,956,680	$ 4,956,680	$ -	$ -	$ -
Clark County Investment Pool	20,964,393	20,964,393	-	-	-
Federal National Mortgage Association	3,977,803	500,216	3,477,588	-	-
Federal Farm Credit Bank	2,491,684	-	2,491,684	-	-
Federal Home Loan Bank	5,537,089	-	5,537,089	-	-
U.S. Treasury Notes	1,981,641	-	1,981,641	-	-
Federal Home Loan Mortgage Corporation	999,623	-	999,623	-	-
	$ 40,908,913	$ 26,421,289	$ 14,487,624	$ -	$ -
Maximum investment by maturity		65%	35%	0%	0%

Investments by investment type, issuer and carrying costs as of December 31, 2014:

Investment Type	Credit Quality	Percent	Carrying Cost
Washington State Local Government Investment pool	Not Rated	12%	$ 4,956,680
Clark County Investment Pool	Not Rated	51%	20,964,393
Federal National Mortgage Association	Aaa	10%	3,977,803
Federal Farm Credit Bank	Aaa	6%	2,491,684
Federal Home Loan Bank	Aaa	14%	5,537,089
U.S. Treasury Notes	Aaa	5%	1,981,641
Federal Home Loan Mortgage Corporation	Aaa	2%	999,623
		100%	$ 40,908,913

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

	2014
Cash and cash equivalents	$ 27,095,138
Investment securities (at fair value)	14,987,840
Total	$ 42,082,978

Note 6 – Risk Management

Clark Regional Wastewater District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 68 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000 - $10,000 and See (C) below	$25,000	$1,000,000,000
Flood	See (A) below	See (A) below	$50,000,000
Earthquake	See (B) below	See (B) below	$75,000,000 ($25,000,000 dedicated to Alderwood and $50,000,000 shared by all members)
Terrorism	$1,000 - $10,000	$25,000 Primary layer	$100,000,000 Primary layer
Boiler & Machinery	$1,000 - $350,000 depending on object	$25,000 - $350,000 depending on object	$100,000,000
Auto - Physical Damage	$1,000-$10,000	$25,000	$10,000,000
Liability:			
Commercial General Liability	$1,000 - $10,000	$200,000	$10,000,000
Auto Liability	$1,000 - $10,000	$200,000	$10,000,000
Public Officials Errors and Omissions	$1,000 - $10,000	$200,000	$10,000,000
Employment Practices	$1,000 - $10,000	$200,000	$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	$1,000 - $10,000	$25,000	$2,000,000
Identity Fraud	$0	$25,000	$0
A. $100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; $250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to $100,000 minimum Earthquake Shock. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is $100,000 and where applicable the dollar amount of the business interruption loss during the policy’s required 8 hour waiting period			

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible which exceeds $25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months’ notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2015, written notice must be in possession of the Pool by April 30, 2015). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

The following schedule depicts the property claims filed by the District with the Pool for the years 2014 and 2013 and the amounts covered by insurance.

Years	Claims Settlements	Insurance Coverage	Excess of Claim Cost Over Coverage
2014	$ 9,085	$ 7,085	$ 2,000
2013	60,564	56,564	4,000
2012	50,423	47,423	3,000

As of December 31, 2014, there was one outstanding claim filed with the Pool against the District for approximately $40,000. The District's responsibility for this claim will not exceed its deductible of $1,000. The District recognizes no potential liability for any additional settlements for outstanding future claims. The amount of settlements did not exceed insurance coverage in the last three years.

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

Note 7 – Pension Plans

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans.1 The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3 Plan Descriptions – The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49% of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was 5½% compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2% of the average final compensation (AFC) per year of service, but the benefit may not exceed 60% of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2% of the AFC for each year of service reduced by 2% for each year that the member's age is less than 55. The total benefit is limited to 60% of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2% of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5% to 15% of salaries, based on member choice. Members who do not choose a contribution rate default to a 5% rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1% of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3% for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5% for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2% of the AFC per year of service. For Plan 3, the monthly benefit amount is 1% of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3% annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5% multiplier. The benefit would be capped at 75% of AFC. Judges in PERS Plan 3 could elect a 1.6% of pay per year of service benefit, capped at 37.5% of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Non-vested	101,191
Total	368,272

Funding Policy – Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6% for state agencies and local government unit employees, and at 7.5% for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5% to 15%.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the

Note 7 – Pension Plans (Continued)

increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in the Judicial Benefit Multiplier Program:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in the Judicial Benefit Multiplier Program:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
***Minimum rate.

Both District and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	0	288,676	14,259
2013	0	247,664	7885
2012	0	183,883	1,501

Note 8 – Deferred Compensation Plan

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

Note 9 – Commitments

Capital Projects – The District has construction commitments resulting from active consultant and construction projects, including restoration and replacement projects, as of December 31, 2014 as follows:

Project	Total Awarded Contract Commitment	Spent to Date
Discovery Corridor Wastewater Transmission System	$ 26,522,266	$ 14,206,729
Payne Pump Station	103,793	85,502
NE 119th Street East CRP (Pleasant Valley Sub Basin Planning)	1,837,970	457,078
NE 10th Avenue Bridge CRP	36,501	22,961
Glenwood Pump Station Upgrade	124,250	119,133
NW Overlook Drive	212,833	205,698
Wooded Acres Phase 1 & 2	48,015	38,429
Jackie's Landing (NE 108th Ave Trunk)	25,000	-
St. Johns Woods Pump Station	61,700	46,271
Fieldstone Estates (Shoen Pump Station)	567,696	176,404
St. Johns & Cougar Canyon Trunk Restoration	818,994	538,091
NE 78th Street Trunk	74,405	68,212
Oro Vega Pump Station Replacement	68,950	54,879
Front Lobby Remodel	12,800	11,469
North Junction Pump Station and Trunk	526,016	244,286
Gee Creek Pump Station	26,242	17,605
Ridgefield Junction Basin Plan	59,963	38,770
Pioneer Street Extension	19,796	-
Campus Assessment	29,166	21,466
Pleasant Valley North Pump Station	7,000	6,274
Highway 99 Sewer North	19,105	19,070
	$ 31,202,461	$ 16,378,328

Long-term Interlocal Agreement – In 1995, Clark Regional Wastewater District entered into a Joint Interlocal (three-way) agreement with Clark County, Washington and the City of Battle Ground regarding costs associated with sanitary sewer treatment services at the Salmon Creek Treatment Plant and its related facilities called the Salmon Creek Wastewater Management System (SCWMS). The SCWMS is owned and operated by Clark County. However, pursuant to the three-way agreement, the District is obligated as guarantor to pay all the associated costs, which include the operations, maintenance, repair, replacement and debt service costs thereof. The District is the County's sole wholesale customer and provides the security needed for the issuance and payment of the debt (i.e. sewer revenue bonds) when needed for expansions. Through a (two-way) agreement with the City of Battle Ground, the District recovers its costs from the City of Battle Ground for their flow into the SCWMS. The City of Battle Ground is the District's sole wholesale customer. The operations, maintenance and funding for equipment and facility replacement is allocated to each party within the two-way agreement based upon wastewater flow. The three-way and two-way agreements address capital improvement obligations issued in Clark County's name for the benefit of both parties (i.e. the

District and the City of Battle Ground). Under each phase of capital improvements for the SCWMS, the District and the City of Battle Ground determine their future capacity (measured in million gallons per day) needs. Their share of the future capacity in turn determines their share of the capital costs that are ultimately paid by their respective ratepayers. The two most recent capital expansions of the plant are Phase III, which was completed and placed in service in 1998, and Phase IV, which was completed and placed in service in 2010.

January 1, 2015, with the transfer of operations to the Alliance, these agreements are no longer effective. See Subsequent Event Note, Note 13, for details.

Note 10 – Other Post Employee Benefits (OPEB)

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

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

As of year-end 2014, there were no District employees that had retired and were receiving these benefits.

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

Funding Policy – This plan is currently not funded. The District was required to contribute $119,506 at December 31, 2014; however, no funds have been contributed to date. The amount contributed differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go-basis. The difference between the OPEB Costs and the required contribution is called the Net OPEB Obligation (NOO). This amount of $948,647 is the actuarial accrued liability recognized on the *Statement of Net Position* at December 31, 2014.

The total Unfunded Actuarial Accrued Liability (UAAL) is $829,287 at December 31, 2014. The covered payroll (annual payroll of active employees covered by the plan) was $3,366,273 and the ratio of the UAAL to the covered payroll was 24.6%.

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2014	$ 119,506	0%	$ 948,647
2013	149,903	0%	829,141
2012	170,191	0%	679,238

Annual OPEB Cost and Net OPEB Obligation – The District's annual other postemployment benefit (OPEB) cost (expense) is determined based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the alternative measurement method permitted under GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis,

is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

	2014	**2013**
Actuarial Required Contribution (ARC)	$ 134,289	$ 161,036
Interest on Net OPEB Obligation (NOO)	33,166	30,566
Adjustment to NOO	(47,949)	(41,699)
Annual OPEB Cost	119,506	149,903
Employer Contributions	-	-
Increase (Decrease) in NOO	119,506	149,903
Net OPEB Obligation January 1	829,141	679,238
Net OPEB Obligation December 31	$ 948,647	$ 829,141

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

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

Valuation Date	12/31/2014
Actuarial Cost Method	Projected Unit Credit
Method used to determine the actuarial value of assets	N/A
Interest Discount Rate - No Pre-Funding	4.5%
Projected Payroll Growth	1.25%
Investment Return	4.5%
Medical Inflation Trend Rate - Initial	7.0%
Medical Inflation Trend Rate - Ultimate	5.0%
Non-Medical Inflation Trend Rate	3.5%
Amortization Period - Open	30

We used the alternative measurement method permitted under GASB 45. A single retirement age of 62.20 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2013 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-side PEBB study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groups. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Note 11 – Capital Contributions

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

	2014
Capital contributions from developers, governments and other sources	$ 3,552,365
Capital contributions from system development charges	4,885,217
Capital contributions from local facility reimbursements	316,048
Total	$ 8,753,630

Note 12 – Joint Venture/Related Party Transactions

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

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

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

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

Throughout 2014 the District completed development and implementation of the transition work program. Activities performed in 2014 include completion of operator, franchise and asset transfer agreements, transfer of operating and access permits, adoption of a capital plan and adoption of a 2015/2016 capital and operating budget. These activities were completed in support of the January 1, 2015, full operational date for the Alliance.

During 2014, the District paid $325,428 to the Alliance for regional service charges, as budgeted by the District and Alliance. The District billed the Alliance $171,625 for Administration Lead services provided, as well as reimbursement of $139,525 in professional consulting, IT support, insurance and various utilities expenses. The Alliance will be receiving its first Washington State Auditor's Office audit in 2015, covering financial activities for fiscal years 2013 and 2014. More information about the Alliance, including the 2013 and 2014 financial report, can be can be found on their website at http://www.discoverycwa.org/.

Note 13 – Subsequent Events

Discovery Clean Water Alliance – As indicated in note 12, the Alliance was incorporated with the Washington Secretary of State on January 4, 2013. Throughout 2013 and 2014, work was ongoing to bring the Alliance operational as a regional wastewater transmission and treatment provider. Asset transfer agreements were signed in 2013 and 2014, resulting in the respective debt and assets of the treatment plants transferring to the Alliance as of January 1, 2015.

For the two of the four members owning the treatment plants in 2014, this transition is defined in GASB 69 as a transfer of operations type of government combination. Accounting for the transfer of the actual assets and operations of the assets, treatment plants, pump stations and force mains, falls under this guidance. For the other two members, including the District, the transfer of debt held on those assets as sole capacity right owners of the treatment plants, falls under the guidance of GASB 62.

The District will ensure to comply with GASB 62 when accounting for the transfer of debt within its 2015 comprehensive annual financial report. The District, the Alliance, Clark County and the cities of Ridgefield and Battle Ground are working closely together to ensure accuracy of all financial data on these transfers. The District estimates decreasing liabilities and recognizing a gain on debt transfer of approximately $12.5 million.

Discovery Corridor Wastewater Transmission System – The District was awarded a $10 million Public Works Trust Fund (PWTF) loan in 2013 as partial funding for the Discovery Corridor Wastewater Transmission System (DCWTS), a $28.5 million project connecting City of Ridgefield to the District's sewer collection system. Draws on this loan began in June 2013. As of December 31, 2014, the District has drawn $1,492,776 from this loan. The remaining $8,507,224 of principal available as of December 31, 2014 will be fully drawn by June 30, 2015.

REQUIRED SUPPLEMANTRY INFORMATION
RETIREE MEDICAL BENEFITS
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/08	12/31/08	$ -	$ 726,741	$ 726,741	0.0%	$ 2,318,547	31.3%
12/31/08	12/31/09	-	726,741	726,741	0.0%	2,561,772	28.4%
12/31/08	12/31/10	-	726,741	726,741	0.0%	2,629,587	27.6%
01/01/12	12/31/11	-	1,033,018	1,033,018	0.0%	2,541,977	40.6%
01/01/12	12/31/12	-	1,094,651	1,094,651	0.0%	2,586,476	42.3%
12/31/2013	12/31/13	-	962,341	962,341	0.0%	3,197,084	30.1%
12/31/2014	12/31/14	-	829,287	829,287	0.0%	3,366,273	24.6%

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov