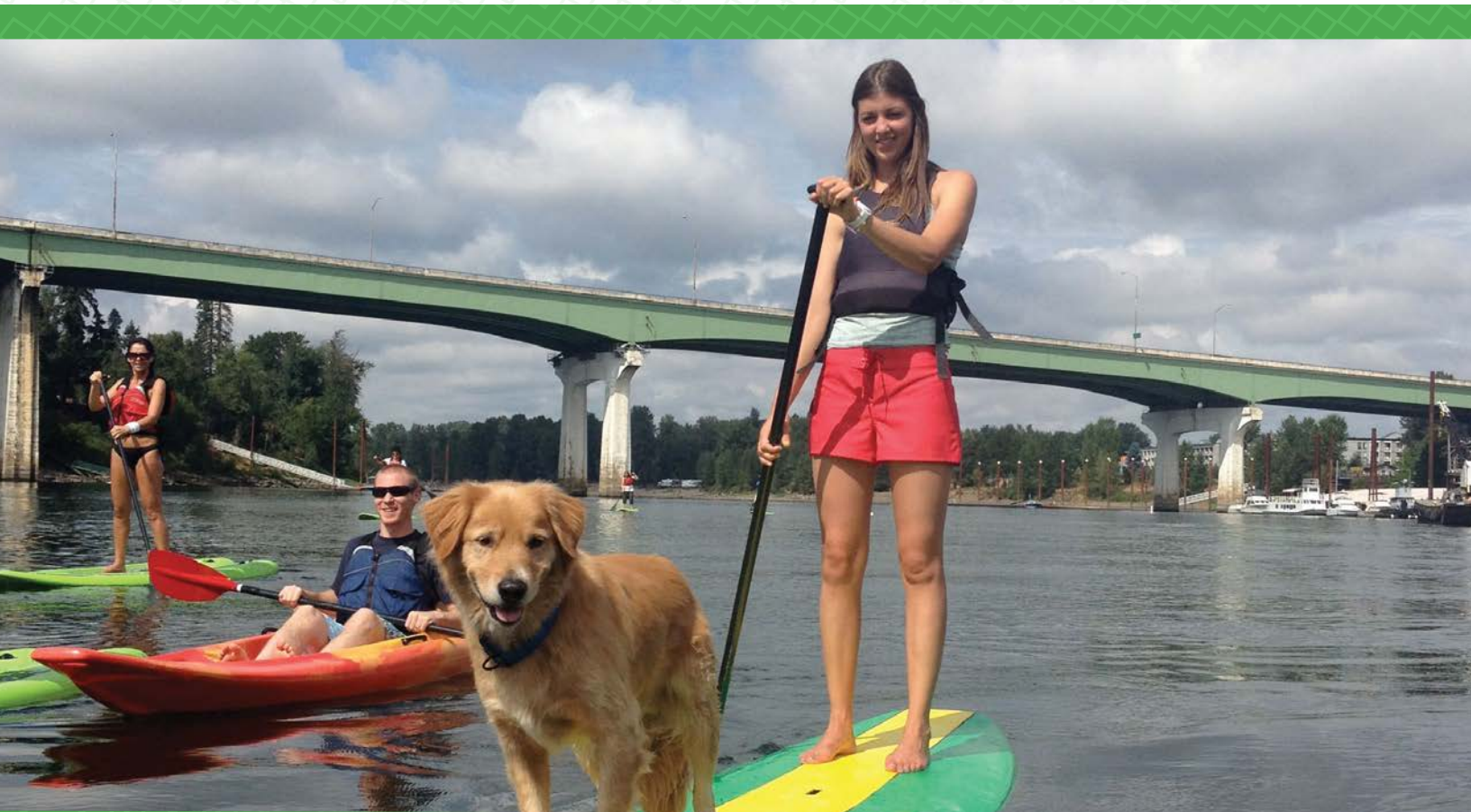


**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
*For the fiscal years ended June 30, 2017 and 2016*

# Tri-City Service District

(A Component Unit of  
Clackamas County, Oregon)





TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

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COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the fiscal years ended June 30, 2017 and 2016

Prepared by:  
WATER ENVIRONMENT SERVICES  
Finance and Administration

Douglas Waugh  
Finance and Administration Manager

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

TABLE OF CONTENTS

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	<u>Page</u>
INTRODUCTORY SECTION:	
Board of County Commissioners	i
Organizational Chart	ii
Letter of Transmittal	iii
Certificate of Achievement for Excellence in Financial Reporting	vii
FINANCIAL SECTION:	
Report of Independent Auditors	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statements of Net Position	12
Statements of Revenues, Expenses, and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Basic Financial Statements	15
Supplementary Information:	
Description of Budgetary Funds	29
Schedules of Revenues and Expenditures - Budget and Actual	
General Fund	30
System Development Charge Fund	31
State Revolving Loan Debt Service Fund	32
Construction Fund	33
Summary of Net Position by Fund	34
STATISTICAL SECTION:	
Financial Trends:	
Net Position by Component - Last Ten Fiscal Years	35
Changes in Net Position - Last Ten Fiscal Years	36
Revenue Capacity:	
Monthly Sewerage Rate and Sewerage Charges Revenue by Type of Customer - Last Ten Fiscal Years	37
Principal Ratepayers Within District - Last Ten Fiscal Years	38

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

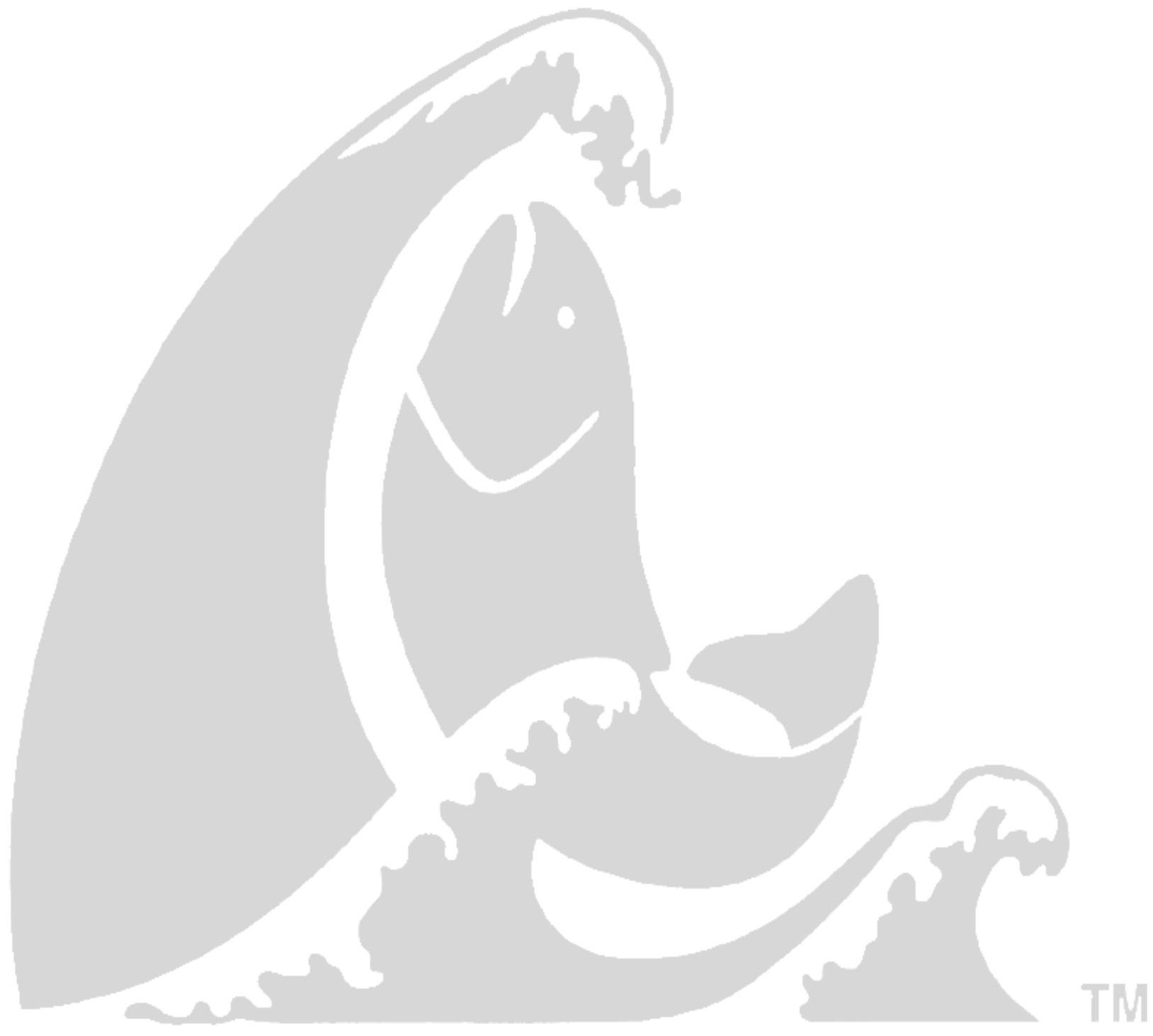
TABLE OF CONTENTS, Continued:

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	<u>Page</u>
STATISTICAL SECTION, Continued:	
Debt Capacity:	
Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	39
Overlapping General Obligation Bonded Debt - June 30, 2017	40
Demographic and Economic Information:	
Demographic and Economic Statistics - Last Ten Fiscal Years	41
Principal Employers - Current Year and Nine Years Ago	42
Full-Time Equivalent Employees by Function - Last Ten Fiscal Years	43
Operating Information:	
Operating Indicators by Function - Last Ten Fiscal Years	44
Capital Asset Statistics by Function - Last Ten Fiscal Years	45
COMPLIANCE REPORTS:	
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46
Report of Independent Auditors on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Oregon Minimum Auditing Standards</i>	48

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# Introductory Section



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TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

GOVERNING BODY UNDER ORS 451.485  
BOARD OF COUNTY COMMISSIONERS  
CLACKAMAS COUNTY, OREGON  
Public Services Building  
2051 Kaen Road  
Oregon City, Oregon 97045

---

COMMISSIONERS AS OF JUNE 30, 2017

<u>Name</u>	<u>Term Expires</u>
Jim Bernard, Chair Public Services Building	December 31, 2021
Sonya Fischer, Commissioner Public Services Building	December 31, 2019
Ken Humberston, Commissioner Public Services Building	December 31, 2021
Paul Savas, Commissioner Public Services Building	December 31, 2019
Martha Schrader, Commissioner Public Services Building	December 31, 2021

ADMINISTRATIVE OFFICES

Water Environment Services  
Clackamas County, Oregon  
150 Beaver Creek Road  
Oregon City, Oregon 97045

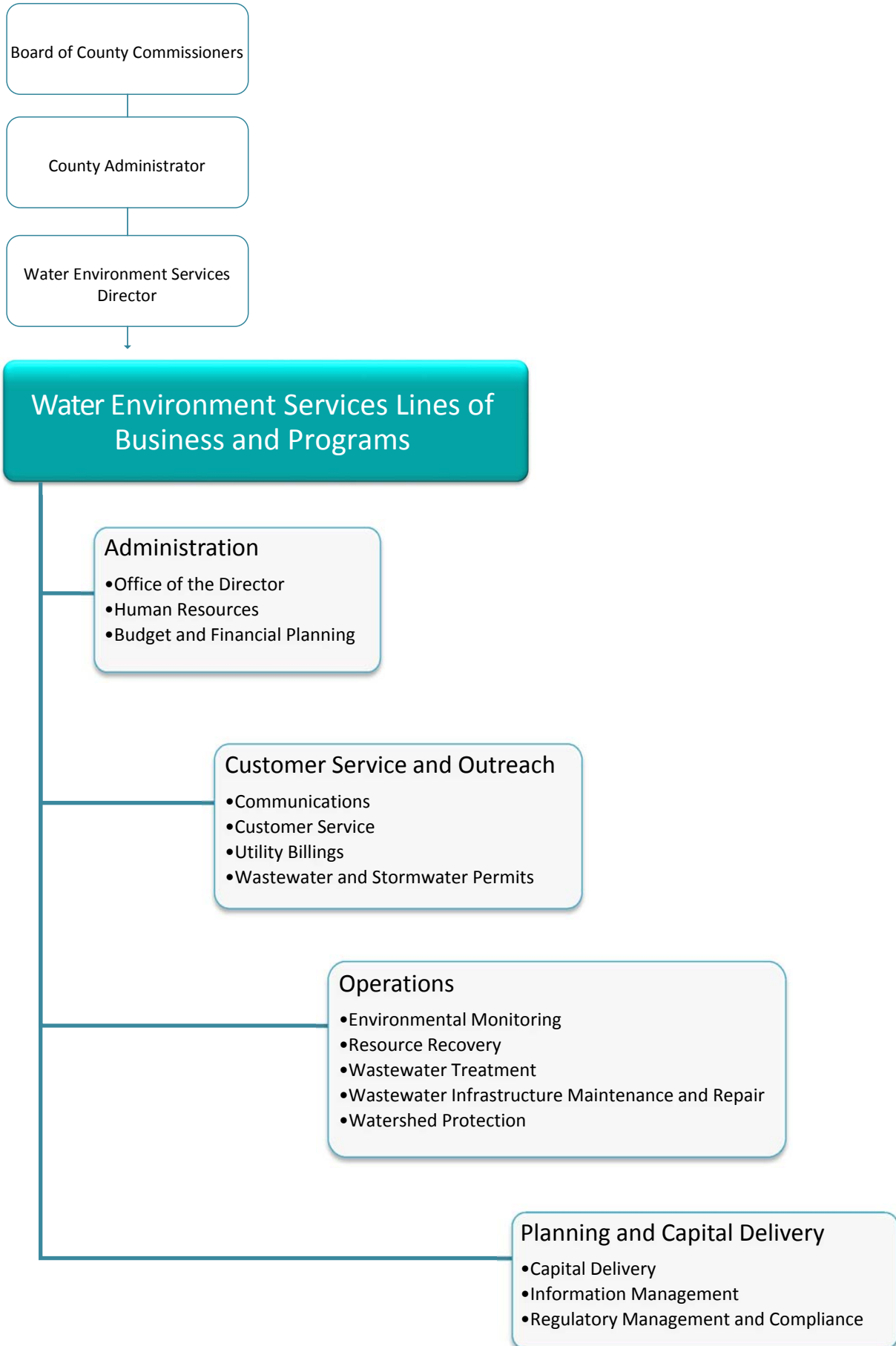
DISTRICT ADMINISTRATOR

Donald Krupp  
2051 Kaen Road  
Oregon City, Oregon 97045

REGISTERED AGENT

Greg Geist  
150 Beaver Creek Road  
Oregon City, Oregon 97045

Water Environment Services  
A Department of Clackamas County  
2016/2017





November 16, 2017

Board of County Commissioners of Clackamas  
County, Oregon, as the Governing Body of  
Tri-City Service District  
Oregon City, Oregon

The Comprehensive Annual Financial Report for the Tri-City Service District (the District) (a Component Unit of Clackamas County, Oregon) for the year ended June 30, 2017, is submitted herewith. This report was prepared by the Finance and Administration Section of Water Environment Services, a Department of Clackamas County (the Department), which administers the Tri-City Service District, in accordance with the financial reporting provisions of Oregon Revised Statutes (ORS) Sections 297.405 through 297.555. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentations, including all disclosures, rests with the Department. We believe the data is accurate and complete in all material respects; that it is presented in a manner designed to present fairly the financial position, results of operations and cash flows of the District at June 30, 2017, and for the year then ended.

The District's management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

This letter of transmittal is designed to complement Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The District's MD&A can be found immediately following the Report of Independent Auditors.

Board of County Commissioners of Clackamas  
County, Oregon, as the Governing Body of  
Tri-City Service District  
Oregon City, Oregon

### Water Environment Services

The Department was created in August 1984 to administer County service districts formed within Clackamas County, Oregon under the provisions of ORS Chapter 451. This enabling legislation establishes County service districts as independent municipal corporations authorized to provide a specific service within specified boundaries in the County. At present, the Department administers the District, Clackamas County Service District No. 1 (CCSD No. 1) (sewer and surface water management), and the Surface Water Management Agency of Clackamas County (SWMACC). Since each of these is a separate municipal corporation, audited financial statements are prepared for each entity.

As specified by ORS 451, the governing body for each of these municipal corporations is the Board of County Commissioners of Clackamas County, Oregon, and the County Administrator serves as the Administrator for each of the Districts. As separate municipal corporations, the operations of each are maintained separately from those of the County. However, under the criteria of the Governmental Accounting Standards Board, each entity is considered a component unit of Clackamas County, Oregon.

### Tri-City Service District

Voters formed the District in 1980 to provide wastewater transmission and treatment services. The District's facilities convey wastewater from the cities of Oregon City, West Linn and a portion of Gladstone to the Tri-City Water Resource Recovery Facility (TCWRRF).

On November 3, 2016, the District entered into an ORS 190 Partnership Agreement (Agreement) with CCSD No. 1 to jointly own, operate, and manage the functions and assets of the two districts to provide reduced costs and improved service. The Agreement was modified on May 18, 2017 to allow SWMACC to also join the partnership. The Agreement establishes an advisory committee to advise the Department on decisions regarding capital improvement programs, annual budgets, financial planning, and long-term financing plans for the entire partnership. Since 1998, the Tri-City facility has also provided growth-related capacity for CCSD No. 1.

Board of County Commissioners of Clackamas  
County, Oregon, as the Governing Body of  
Tri-City Service District  
Oregon City, Oregon

### Prospects for the Future

It is anticipated that customer growth will be at a faster pace during the next several years. In August of 2016, ECONorthwest created an update of population projections for the District and CCSD No. 1. Growth projections within the District for the next five years are projected to be 2.9% on an annual average.

In the short term, the District is seeing growth approximately equal to the projected growth rate from the population forecast updated for the District in 2016. These forecasts are being used in future capital and financial planning efforts. The District through the partnership continues to pursue work on additional sanitary sewerage investments. These projects will serve growth over the next 15 to 20 years.

In 2011 and 2012 CCSD No. 1 finished expansion of a significant portion of the TCWRRF to add capacity, which will serve the needs of both the District and CCSD No. 1 for the next several years. Most of these additions are CCSD No. 1 assets situated at the TCWRRF in accordance with an Intergovernmental Agreement (IGA) between the District and CCSD No.1. Additional expansion to address solids limitations at the Tri-City facility is under design and is anticipated to be completed by 2020.

In July of 2012 the District and CCSD No. 1 purchased the former Blue Heron property in West Linn, Oregon. The District and CCSD No. 1's primary interest was in the existing industrial outfall and associated discharge permit. This permit will address anticipated changes in the regulatory environment on the Willamette River. The permit and outfall structure was purchased in conjunction with the property. At present the site is not being used. The Remedial Investigation Report and Human Health and Ecological Risk Assessments commissioned by WES on behalf of CCSD No. 1 and the District were accepted by the Department of Environmental Quality (DEQ) on June 18, 2014. In July 2016, CCSD No. 1 and the District continued an alternatives evaluation. CCSD No. 1 and the District will be reviewing the alternatives to determine if the site will remain unused or remediation efforts will commence. The District has determined that no obligating events have occurred as of June 30, 2017 therefore no liability has been recorded. Please refer to Note 11 on page 27 in the Notes to Basic Financial Statements for additional information.

Board of County Commissioners of Clackamas  
County, Oregon, as the Governing Body of  
Tri-City Service District  
Oregon City, Oregon

### Independent Audit

The provisions of ORS Sections 297.405 through 297.555, known as "Municipal Audit Law" require that an independent audit of the District's records be made within six months following the close of the fiscal year. The auditors, whose selection was approved by the Board of County Commissioners at the recommendation of District management, have completed their audit of the District's financial statements and have included their report in the Financial Section of this report.

### GFOA Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its Comprehensive Annual Financial Report for the year ended June 30, 2016. In order to be awarded a Certificate of Achievement, the District publishes an easily readable and efficiently organized Comprehensive Annual Financial Report that conforms to program standards. The report satisfies both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe we have again met the GFOA's standards for financial reporting for the year ended June 30, 2017, and therefore, the District will be submitting its current Comprehensive Annual Financial Report to that body for consideration for a Certificate of Achievement. To that end, we will advise the Board of the results of the GFOA's review of our report.

### Acknowledgments

We wish to express our appreciation to the entire Water Environment Services staff for their efforts and contributions to our annual report. Our appreciation is especially extended to the Finance and Administration Section of the Department, who work diligently year-round to maintain accurate and timely financial records of the District. This effort is crucial to the success of the Department and the well-being of its ratepayers.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Greg Geist".

Greg Geist  
Director



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Tri-City Service District  
Oregon**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is fluid and cursive.

Executive Director/CEO

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# **Financial Section**



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## Report of Independent Auditors

Board of County Commissioners of  
Clackamas County, Oregon, as Governing Body of  
Tri-City Service District  
Oregon City, Oregon

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Tri-City Service District (the District), a component unit of Clackamas County, Oregon, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***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 opinions 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 entity'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 entity'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 respective financial position of the District as of June 30, 2017, and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 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.

***Supplementary Information***

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedules and summary of net position by fund on pages 29 to 34 (collectively, the supplementary information), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as described above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory and Statistical Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory and Statistical Sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated November 16, 2017, on our consideration of the District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



James C. Lanzarotta, Partner  
for Moss Adams LLP  
Eugene, Oregon  
November 16, 2017

**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal Year Ended June 30, 2017**

As management of the Tri-City Service District (the District), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

**Financial Highlights**

- Assets of the District exceeded our liabilities at the close of the fiscal year by \$50,571. Of this amount, \$12,857 (unrestricted net position) may be used to meet our ongoing obligations of providing wholesale sanitary sewage treatment services.
- The District's total assets increased by \$879 in fiscal year 2017 primarily due to increases in pooled cash and investments and land, easements, and construction in progress. These were offset by a decrease in capital assets, specifically a reduction of \$2,068 in plant and equipment.
- Operating revenues were up \$703. Sewer charges from the cities were up \$630, payments from Clackamas County Service District No. 1 (CCSD No. 1) under an Intergovernmental Agreement (IGA) for the dewatering of Biosolids increased by \$34, and other operating revenue increased by \$39.
- Operating expense decreased by \$308. This resulted primarily from a decrease in depreciation and amortization due to some assets having become fully depreciated in the prior year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. These statements consist of the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows along with the Notes to Basic Financial Statements. Complementing these statements and notes is other Supplementary Information, which provides additional detail about the District's operations.

The Statements of Net Position present information on all of the District's assets, liabilities, and net position. Over time, changes in assets, liabilities, and net position may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present information related to increases and decreases in total net position. These statements are prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Statements of Cash Flows are an analysis of the change in the District's cash balance during the fiscal year. They are divided into three components: cash flows from operating activities, cash flows from capital and related financing activities, and cash flows from investing activities.

**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2017**

**Overview of the Financial Statements (Continued)**

The basic financial statements contain information relating to the District's operations and can be found on pages 12 through 14 of this report. These operations are centered in the Tri-City Water Resource Recovery Facility (TCWRRF) located in Oregon City, Oregon.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide statements. The Notes to the Basic Financial Statements can be found on pages 15 through 28 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information concerning the District's budgetary comparisons, beginning on page 29.

**Financial Analysis**

The financial operations of the District are primarily related to the wholesale transmission and treatment of sanitary sewage.

**Net Position**

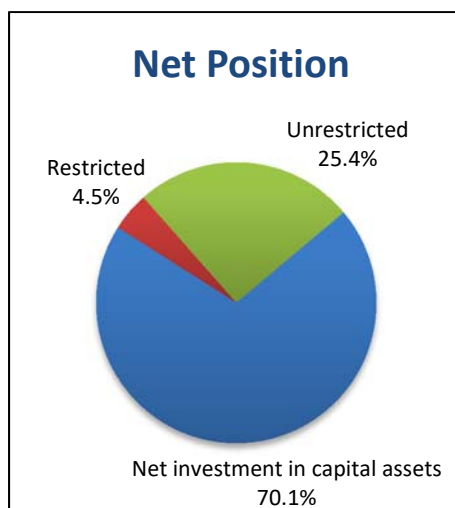
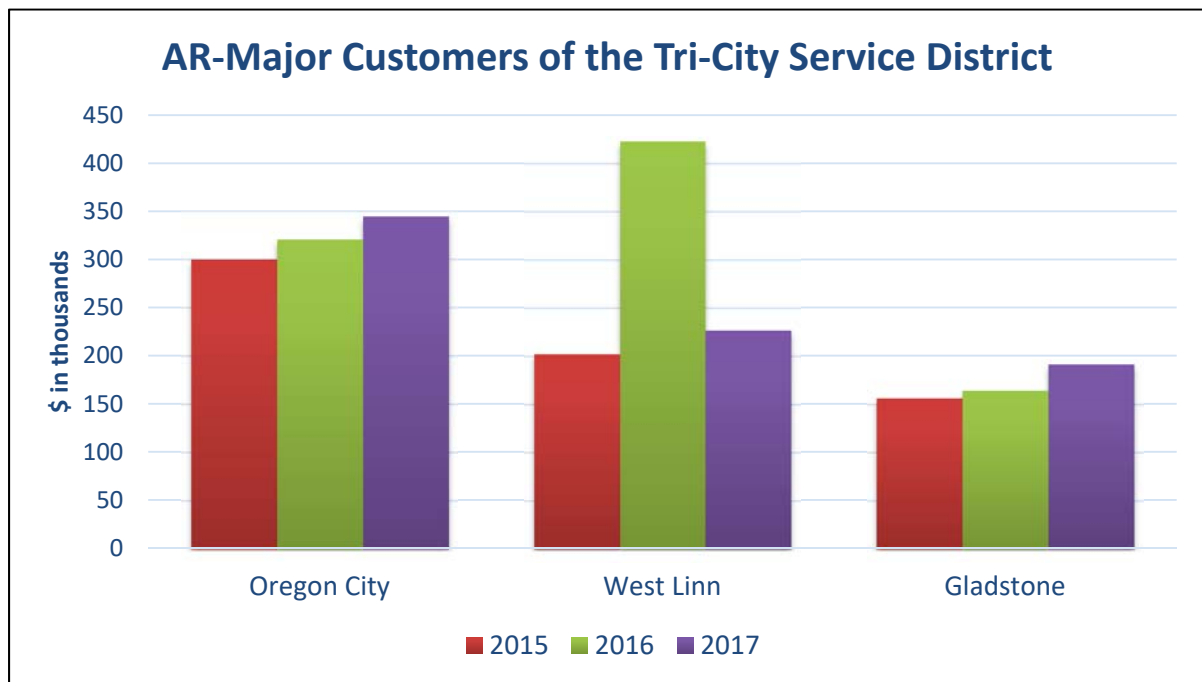
(In Thousands of Dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 13,302	\$ 11,031	\$ 9,985
Non-current assets - restricted	2,258	2,079	1,333
Capital assets, net	<u>35,456</u>	<u>37,027</u>	<u>39,044</u>
 Total assets	 <u>51,016</u>	 <u>50,137</u>	 <u>50,362</u>
 Current liabilities	 <u>445</u>	 <u>672</u>	 <u>656</u>
 Total liabilities	 <u>445</u>	 <u>672</u>	 <u>656</u>
 Net investment in capital assets	 35,456	 37,027	 38,990
Restricted for capital projects	2,257	2,078	1,278
Restricted for debt service	1	1	55
Unrestricted	<u>12,857</u>	<u>10,359</u>	<u>9,383</u>
 Total net position, end of period	 <u>\$ 50,571</u>	 <u>\$ 49,465</u>	 <u>\$ 49,706</u>

**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2017**

**Financial Analysis (Continued)**

Current assets increased by \$2,271. Pooled cash and investments were up by \$1,958 and accounts receivable (AR) increased by \$282. AR for the three cities, which comprise the District, has increased overall in 2017 due to a rate increase from \$20.00 per Equivalent Dwelling Unit (EDU) in 2016 to \$21.50/EDU in 2017.



Total Net Position increased by \$1,106. This overall increase is due to an increase of \$2,498 in unrestricted assets partially offset by a decrease of \$1,571 in net investment in capital assets.

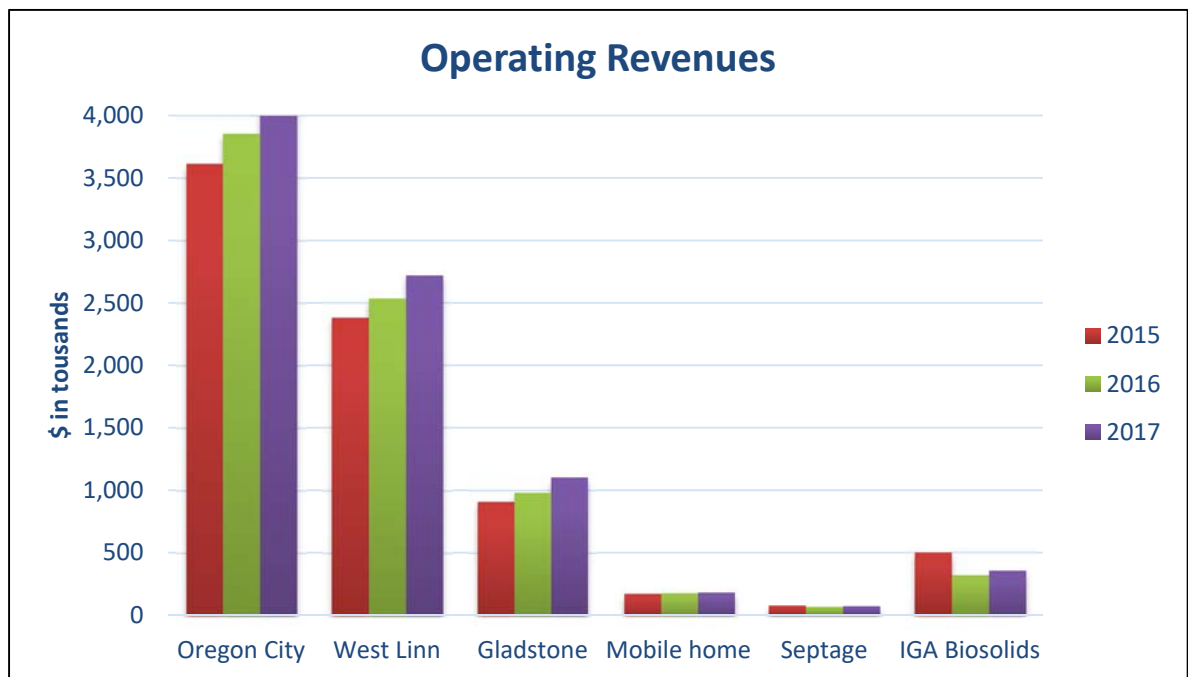
The majority of net position items are capital assets, represented by treatment facilities, land, conveyance systems, buildings, office equipment and vehicles. Restricted assets relate to the state loan and system development charges. Unrestricted assets account for 25.4% of net position. These items have no external restriction concerning their use or function.



**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2017**

**Financial Analysis (Continued)**

Total operating revenue increased by \$703, an increase of 8.6%. Sewerage charges increased by \$630 while intergovernmental revenue increased by \$34 and other operating revenues increased by \$39. This follows an increase in 2016 total operating revenue of \$278 or 3.5%. In 2016, sewerage revenues increased by \$464 while intergovernmental revenue decreased by \$177. Intergovernmental revenue includes the payment by CCSD No. 1 to the District for dewatering of biosolids at the Tri-Cities facility. In 2017 the number of gallons treated increased while the rate per gallon treated for use of the centrifuge remained the same. See Note 6 to the financial statements for further information.

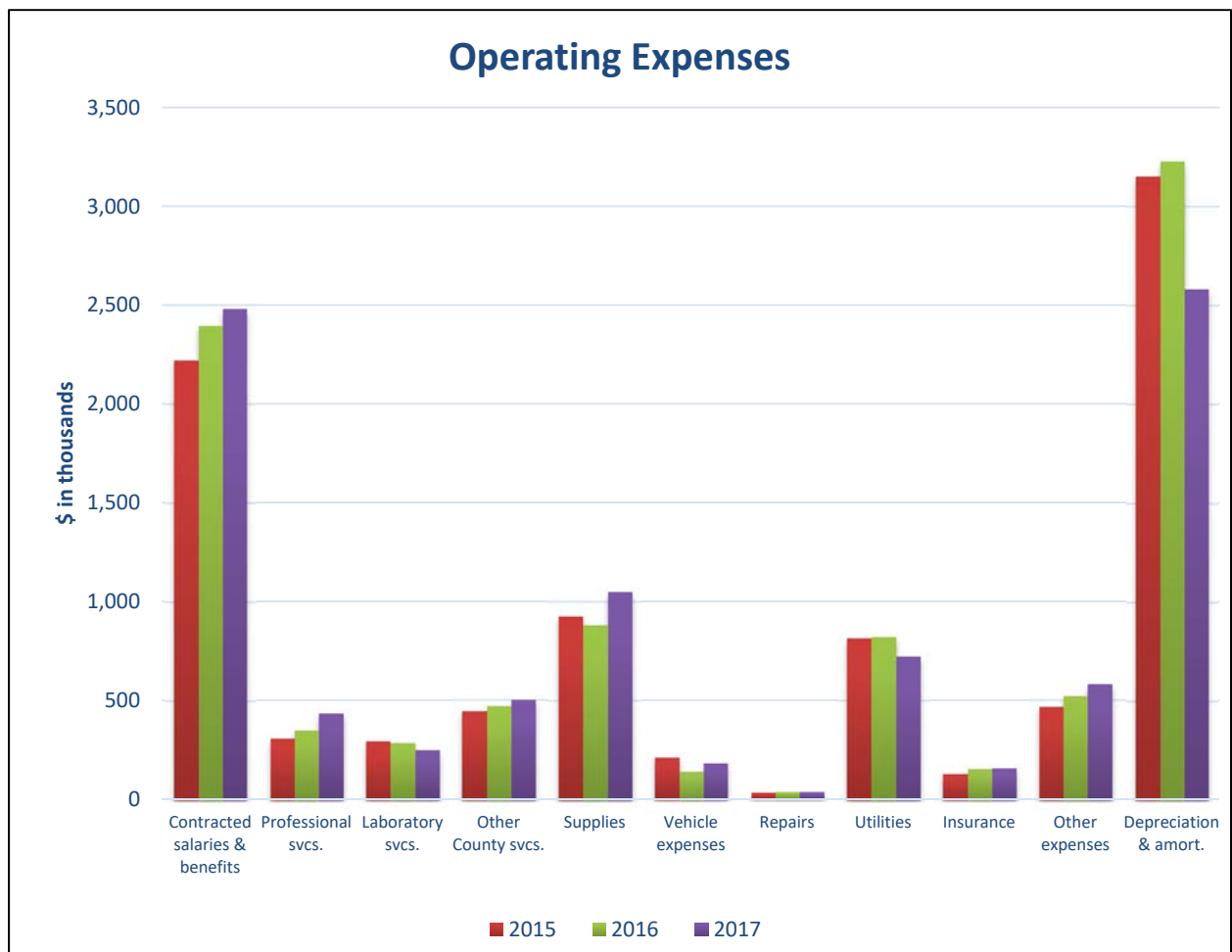


Sewerage charges increased in 2017 primarily due to a user rate increase. Sewer rates increased from \$20.00 per EDU in 2016 to \$21.50 per EDU in 2017, an increase of 7.5%. In the graph above, sewerage charges are reflected in the revenue from the cities and mobile home parks; Intergovernmental revenue is represented by the IGA for Biosolids; and Septage is a part of Other operating revenue.

**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2017**

**Financial Analysis (Continued)**

Intergovernmental revenues include revenues from CCSD No. 1 to treat biosolids as specified in an IGA. The District constructed a back up centrifuge at Tri-City in order to dewater biosolids. CCSD No. 1 has agreed to pay the District a per gallon rate to have their biosolids dewatered. In 2017 CCSD No. 1 paid the District \$355. See Note 6 to the financial statements for further information.



Total operating expenses in fiscal year 2017 decreased by \$308. This is primarily the result of depreciation and amortization decreasing by \$646 or 20.0% due to several significant assets being fully depreciated in the prior year. Contracted salaries and benefits increased by \$84. Professional services increased by \$85. Supplies increased by \$168 and utilities decreased by \$98.

**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2017**

**Financial Analysis (Continued)**

The following table offers a comparison of revenues, expenses and changes in net position for the years ended June 30, 2017, 2016 and 2015:

**Changes in Net Position**  
(In Thousands of Dollars)

	2017	2016	2015
Sewerage charges	\$ 8,196	\$ 7,566	\$ 7,102
Other operating revenues	656	583	769
Operating revenues	<u>8,852</u>	<u>8,149</u>	<u>7,871</u>
Contracted salaries and benefits	2,480	2,396	2,221
Material and services	6,493	6,885	6,770
Operating expenses	<u>8,973</u>	<u>9,281</u>	<u>8,991</u>
Operating loss	<u>(121)</u>	<u>(1,132)</u>	<u>(1,120)</u>
Interest income	105	38	54
Interest expense	-	(1)	(3)
Gain (loss) on disposal of capital assets	(3)	1	3
Nonoperating revenue	<u>102</u>	<u>38</u>	<u>54</u>
Loss before contributions	<u>(19)</u>	<u>(1,094)</u>	<u>(1,066)</u>
Contributions	<u>1,125</u>	<u>853</u>	<u>356</u>
Change in net position	1,106	(241)	(710)
Net position - beginning of year	<u>49,465</u>	<u>49,706</u>	<u>50,416</u>
Net position - end of year	<u>\$ 50,571</u>	<u>\$ 49,465</u>	<u>\$ 49,706</u>

Operating expenses increased in fiscal year 2016 by \$290 or 3.2% over fiscal year 2015. Other County Services and other expenses were higher in 2016.

In 2017 nonoperating revenue increased by \$64 due to an increase of \$67 in interest income.

Total contributions increased by \$272, connection charges increased in Oregon City, West Linn, and Gladstone due to an increase in the Systems Development Charge (SDC) from \$2,400/EDU (Equivalent Dwelling Unit) in 2016 to \$2,765/EDU in 2017.

**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2017**

**Capital Asset and Debt Analysis**

The District's total capital assets decreased by \$1,571 or 4.2% in fiscal year 2017 from 2016 due to the depreciation of existing assets. From 2015 to 2016 net capital assets decreased \$2,017. For 2017 plant and equipment, net decreased by \$2,068.

Readers interested in more detailed information are referred to Notes 4 and 5 of the Notes to Basic Financial Statements beginning on page 22.

**Rates and Charges**

In August of 2016, ECONorthwest created an update for the District's population projections. Growth projections within the District for the next five years are projected to be 2.9% on an annual average.

While these future customers will increase the District's customer base and enhance realization of economies of scale opportunities, they will also buy into the system through the payment of SDCs (connection charges) as mentioned above. These charges are used for capital construction.

Over the last few years the monthly service fee per EDU has increased gradually. On July 1, 2015 the rate was \$20.00 per EDU, changed to \$21.50 effective July 1, 2016. The most recent budget, adopted in June of 2017, established a rate of \$22.15 per EDU for the cities of West Linn and Gladstone, an increase of 3%. A rate of \$23.50 per EDU was established for the city of Oregon City and a rate of \$23.25 per EDU was established for the city of Gladstone. These differentials in the rate are required to raise additional funds to pay Oregon City and Gladstone their Right of Way (ROW) fees. The District's rate base allows for sufficient revenues to provide for operating expenses and continues to provide the funding necessary to finance future capital construction.

The three member cities of the District each add a charge to the District's base rate to provide for the costs associated with building and maintaining the collection systems operated by each. Oregon City, West Linn, and Gladstone added \$29.49, \$17.93, and \$9.65 per month per EDU, respectively, to the District's \$21.50 per month per EDU rate to provide for the costs associated with combined sewer separation and other collection system upgrades.

**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2017**

**Economic Factors and Next Year's Budget**

Growth in the customer base in 2017 was 1.8% in the three cities.

The operating budget for 2018 represents an increase of \$902 from 2017. Labor, engineering, and professional services are a major portion of the increase. Sewer treatment revenues are expected to rise due to the increases in rates discussed above.

Actual operating expenses for 2017 were \$1,205 under budget or 16%. The District is participating with CCSD No. 1 in the design and construction of a large solids handling facility. For more details see the Supplementary Information section.

In July of 2012 the District and CCSD No. 1 jointly purchased the former Blue Heron property in West Linn, Oregon. CCSD No. 1 and the District's primary interest is in the existing industrial outfall permit. This permit was purchased in conjunction with the property. At present the site is not being used and the permit should allow the District to avoid substantial future costs. A remedial investigation and feasibility analysis to deal with site contamination from historical operations at the site was completed in 2014. In July 2016, CCSD No. 1 and the District continued an alternatives evaluation. CCSD No. 1 and the District will be reviewing the alternatives to determine if the site will remain unused or remediation efforts will commence. The District has determined that no obligating events have occurred as of June 30, 2017 therefore no liability has been recorded.

On November 3, 2016, the District entered into an ORS 190 Partnership Agreement (Agreement) with CCSD No. 1 to jointly own, operate, and manage the functions and assets of the two districts to provide reduced costs and improved service. The Agreement was modified on May 18, 2017 to allow the Surface Water Management Agency of Clackamas County to also join the partnership. Additional information on this agreement is provided in Note 12, Subsequent Events.

**Financial Contact**

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact the Finance and Administration Manager at 150 Beaver Creek Road, Oregon City, Oregon 97045. The District's telephone number is 503-742-4567. You can also reach us through our web page at [www.clackamas.us/wes](http://www.clackamas.us/wes).

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# **Basic Financial Statements**







TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
STATEMENTS OF NET POSITION  
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets:		
Pooled cash and investments	\$ 11,644,318	\$ 9,685,650
Accounts receivable	1,511,355	1,229,383
Interest receivable	13,081	8,775
Property taxes receivable	-	805
Prepaid expenses	<u>134,110</u>	<u>105,981</u>
Total current assets	<u>13,302,864</u>	<u>11,030,594</u>
Non-current assets:		
Pooled cash and investments - restricted	<u>2,257,943</u>	<u>2,079,065</u>
Capital assets:		
Land, easements and construction in progress	5,080,396	4,583,515
Plant and equipment, net	<u>30,375,302</u>	<u>32,443,433</u>
Total capital assets	<u>35,455,698</u>	<u>37,026,948</u>
Total non-current assets	<u>37,713,641</u>	<u>39,106,013</u>
TOTAL ASSETS	<u>51,016,505</u>	<u>50,136,607</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	361,586	600,311
Other liabilities	11,823	-
Due to Clackamas County	<u>71,956</u>	<u>71,201</u>
Total current liabilities	<u>445,365</u>	<u>671,512</u>
TOTAL LIABILITIES	<u>445,365</u>	<u>671,512</u>
<b>NET POSITION</b>		
Net investment in capital assets	35,455,698	37,026,948
Restricted for capital projects	2,257,401	2,078,527
Restricted for debt service	542	538
Unrestricted	<u>12,857,499</u>	<u>10,359,082</u>
TOTAL NET POSITION	<u>\$ 50,571,140</u>	<u>\$ 49,465,095</u>

The accompanying notes are an  
integral part of the basic financial statements.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Sewerage charges	\$ 8,195,657	\$ 7,566,349
Intergovernmental revenue	354,963	321,158
Other operating revenues	301,501	261,584
Total operating revenues	<u>8,852,121</u>	<u>8,149,091</u>
Operating expenses:		
Contracted salaries and benefits	2,480,481	2,395,695
Professional services	434,975	349,563
Laboratory services	248,562	286,102
Other County services	502,346	468,916
Supplies	1,051,271	883,487
Vehicle expenses	180,640	140,155
Repairs and maintenance	32,752	33,637
Utilities	723,413	821,307
Insurance	156,847	154,093
Other expenses	579,765	520,168
Depreciation and amortization	2,581,826	3,228,365
Total operating expenses	<u>8,972,878</u>	<u>9,281,488</u>
Operating loss	<u>(120,757)</u>	<u>(1,132,397)</u>
Nonoperating revenue (expense)		
Interest income	105,031	38,392
Interest expense	-	(684)
Gain (loss) on disposal of capital assets	(3,103)	321
Total nonoperating revenue	<u>101,928</u>	<u>38,029</u>
Loss before contributions	<u>(18,829)</u>	<u>(1,094,368)</u>
Contributions		
Connection charges	976,273	853,737
Capital Contribution	148,601	-
Total contributions	<u>1,124,874</u>	<u>853,737</u>
Change in net position	1,106,045	(240,631)
Net position - beginning of year	<u>49,465,095</u>	<u>49,705,726</u>
Net position - end of year	<u>\$ 50,571,140</u>	<u>\$ 49,465,095</u>

The accompanying notes are an  
integral part of the basic financial statements.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
STATEMENTS OF CASH FLOWS  
for the years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Received from customers	\$ 8,689,156	\$ 7,624,595
Payments to suppliers for goods and services	(3,207,556)	(2,984,730)
Payments to related entities for services	(3,230,960)	(3,222,172)
Other operating revenue	301,594	261,584
Net cash from operating activities	<u>2,552,234</u>	<u>1,679,277</u>
Cash flows from capital and related financing activities:		
State loan principal paid	-	(54,426)
State loan interest paid	-	(1,767)
Capital contributed by customers/governments	18,447	-
Connection charges collected	567,495	827,610
Collection of property taxes	805	39
Acquisition of capital assets, net of dispositions	(1,102,160)	(1,063,319)
Net cash from capital and related financing activities	<u>(515,413)</u>	<u>(291,863)</u>
Cash flows from investing activities:		
Interest received	100,725	40,770
Net increase in pooled cash and investments	2,137,546	1,428,184
Pooled cash and investments, beginning of year	11,764,715	10,336,531
Pooled cash and investments, end of year <sup>(1)</sup>	<u>\$ 13,902,261</u>	<u>\$ 11,764,715</u>
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (120,757)	\$ (1,132,397)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	2,581,826	3,228,365
Changes in assets and liabilities:		
Decrease (increase) in sewerage charges and other receivables	126,806	(262,911)
Increase in prepaid expenses	(28,129)	(77,297)
Increase in other liabilities	11,823	-
Decrease in accounts payable and Due to Clackamas County	(19,335)	(76,483)
Total adjustments	<u>2,672,991</u>	<u>2,811,674</u>
Net cash from operating activities	<u>\$ 2,552,234</u>	<u>\$ 1,679,277</u>
<sup>(1)</sup> Pooled cash and investments are reflected on the Statements of Net Position as follows:		
Current assets - unrestricted	\$ 11,644,318	\$ 9,685,650
Non-current assets - restricted	2,257,943	2,079,065
	<u>\$ 13,902,261</u>	<u>\$ 11,764,715</u>
Noncash Capital Activity		
Contributions of capital assets from governments, developers and customers	<u>\$ 130,154</u>	<u>\$ -</u>

The accompanying notes are an integral part of the basic financial statements.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

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**1. Summary of Significant Accounting Policies**

**The District**

Tri-City Service District (the District) was organized in July 1980 under the provisions of ORS Chapter 451 to provide and operate a sanitary sewerage system within the incorporated areas of the Cities of Oregon City, West Linn and portions of Gladstone. As provided by ORS 451.485, the Clackamas County Board of Commissioners (BCC) is the governing body of the District.

The District has no potential component units. Since Clackamas County, Oregon is financially accountable for and significantly influences the operations of the District and the Clackamas County Board of Commissioners also serves as the District's Board, the District is included as a blended component unit in the Comprehensive Annual Financial Report of Clackamas County, Oregon for the years ended June 30, 2017 and June 30, 2016.

Fiscal and accounting functions are provided by personnel of Clackamas County Water Environment Services (WES), the County Treasurer and the County's General Services Agency. The District contracts with the County for their personnel services.

Significant accounting policies used in the preparation of these basic financial statements are described below:

**Measurement Focus**

The basic financial statements are prepared on the flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included in the Statements of Net Position. The Statements of Revenues, Expenses and Changes in Net Position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

**Basis of Accounting**

The District's basic financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred regardless of the timing of related cash flows. The District maintains four individual funds for state legal compliance that are combined and reported as a unitary enterprise similar to a commercial entity organized for profit for financial reporting.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations, primarily sewage treatment operations. Operating expenses include the cost of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenue and expense.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

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**1. Summary of its Significant Accounting Policies - Continued**

**Pooled Cash and Investments**

Pooled cash and investments are comprised of funds held and invested by the Clackamas County Treasurer and the State of Oregon Treasurer's Local Government Investment Pool (LGIP). Financial information required by Governmental Accounting Standards Board Statements (GASB) No. 3, No. 31, No. 40, and No. 72 regarding the accounting and financial reporting for the District's pooled cash and investments, held by the Clackamas County Treasurer, has been disclosed in the County's Comprehensive Annual Financial Reports for the fiscal years ended June 30, 2017 and June 30, 2016. For purposes of the Statements of Cash Flows, pooled cash and investments include all cash and investments held by the Clackamas County Treasurer and LGIP, since they have the general characteristics of a demand deposit account.

Investments in the LGIP are stated at cost which approximates fair value and its share value.

The LGIP is administered by the Oregon State Treasurer. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the state that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local government in Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which is not registered with the US Securities and Exchange Commission as an investment company. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

**Sewerage Charges Receivable**

Sewerage charges receivable represent user charges and are due from property owners within the District, which is presented as part of the accounts receivable balance. An allowance for doubtful accounts is not deemed necessary as uncollectible accounts become a lien on the property.

**Capital Assets**

Capital assets are stated at cost or at estimated fair market value at the time received in the case of gifts or projects constructed by others. Normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

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**1. Summary of its Significant Accounting Policies – Continued**

**Capital Assets – Continued**

Depreciation is computed on assets placed in service using the straight-line method over their estimated useful lives as follows:

Sewage treatment plant	20 - 50 years
Sewage treatment line system	20 - 50 years
Equipment	5 - 50 years

**Intangible Assets**

Intangible assets include software and are stated at cost less accumulated amortization. Amortization is provided using the straight-line method over the life of five to ten years. The District periodically reevaluates the estimated useful lives of these assets.

**Capitalized Interest**

Interest costs are capitalized as part of the costs of capital assets during the period of construction, based on the related weighted average net borrowing costs incurred. Interest earned on temporary investments acquired with the proceeds of borrowed funds, is used to reduce the interest costs capitalized on the constructed assets. Interest earned for this calculation is figured from the time of the borrowing until the assets are placed in use. Interest is not capitalized for outlays financed by capital grants (or other outside parties) externally restricted for the acquisition of specified assets. For 2017 and 2016, no interest was capitalized.

**Net Position**

Net position comprises the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following four components: Net investment in capital assets, Restricted for capital projects; Restricted for debt service; and Unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt (revenue bonds and other debt obligations) that is attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital projects and debt service consists of net assets, on which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including legal mandates. The balance in Restricted for capital projects of \$2,257,401 is restricted due to enabling legislation. This balance relates to unspent System Development Charges. Unrestricted net position consists of all other assets, not included in the above categories.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

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**1. Summary of its Significant Accounting Policies – Continued**

**Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

Certain line items in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

**Adoption of New GASB Pronouncements**

During the fiscal year ended June 30, 2017, the following new GASB pronouncements became effective:

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, Issued June 2015.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Issued June 2015.

GASB Statement No. 77, *Tax Abatement Disclosures*, Issued August 2015.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, Issued December 2015.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, Issued December 2015.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, Issued January 2016.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, Issued March 2016.

The District has applied all applicable GASB pronouncements in the financial statements.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

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**1. Summary of its Significant Accounting Policies – Continued**

**Future Adoption of GASB Pronouncements**

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2017:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, Issued June 2015

GASB Statement No. 81, Irrevocable Split-Interest Agreements, Issued March 2016

GASB Statement No. 83, Certain Asset Retirement Obligations, Issued November 2016

GASB Statement No. 84, Fiduciary Activities, Issued January 2017

GASB Statement No. 85, Omnibus 2017, Issued March 2017

GASB Statement No. 86, Certain Debt Extinguishment Issues, Issued May 2017

GASB Statement No. 87, Leases, Issued June 2017

The District will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The District is currently evaluating if the above listed new GASB pronouncements will have a significant financial impact to the District or in issuing its financial statements.

**2. Pooled Cash and Investments**

Pooled cash and investments are comprised of the following:

	2017	2016
Petty Cash	\$ 100	\$ 100
Pooled cash and investments	13,902,161	11,764,615
	<u>\$ 13,902,261</u>	<u>\$ 11,764,715</u>

Pooled cash and investments are held by the County Treasurer and represent the District's equity in pooled accounts maintained by the County Treasurer. Investments with a remaining maturity of more than one year, at the time of purchase, are stated at fair value, which approximates cost.

Various inputs are used in determining the fair value of investments. These inputs to valuation techniques are categorized into a fair value hierarchy consisting of three broad levels for financial statement purposes as follows:



TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

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**2. Pooled Cash and Investments - Continued**

Level 1 - unadjusted price quotations in active markets/exchanges for identical assets or liabilities, that each Fund has the ability to access.

Level 2 - other observable inputs including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs.

Level 3 - unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including each Fund's own assumptions used in determining the fair value of investments).

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The categorization of a value determined for investments is based on the pricing transparency of the investments and is not necessarily an indication of the risks associated with investing in those securities.

At June 30, 2017, none of the District's accounts fell within these input levels.

State statutes authorize the District to invest in general obligations of the U.S. Government and in its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements and bankers' acceptances, among others. Reference should be made to the June 30, 2017 and June 30, 2016 Comprehensive Annual Financial Reports of Clackamas County for compliance with these statutes.

Investments in the LGIP are stated at fair value, which approximates cost. The Oregon State Treasury administers the LGIP. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the State who by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local government in Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which is not registered with the U.S. Securities and Exchange Commission as an investment company. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. The Oregon Short-Term Fund financial statements and its portfolio rules can be obtained at [www.ost.state.or.us](http://www.ost.state.or.us). The LGIP is not rated by any national rating service. The LGIP is stated at fair value, which approximates cost. Fair value is the same as the District's value in the pool shares.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

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## **2. Pooled Cash and Investments - Continued**

### **Custodial Credit Risk**

The District is exposed to custodial credit risk because its cash and investments are held by a counterparty in the counterparty's name. This is the risk that in the event of failure of the counterparty, the District's deposits may not be returned. The District's cash and investments are held by Clackamas County in a pool that also includes deposits of CCSD No. 1 and Surface Water Management Agency of Clackamas County. The pool consists of bank and local government investment pool accounts, and federal treasury securities. This pool is subject to general credit claims of the County. The District believes that the risk of County default is slight and outweighed by the advantages of participation in the County cash and investment pool.

The District follows Clackamas County's policies to address custodial credit risk, which mirror parameters for the investment of public funds set forth in the ORS. Reference should be made to the Clackamas County Comprehensive Annual Financial Reports for information about the interest, credit, and custodial credit risks associated with the County's various cash and investments.

### **Credit Risk**

The District is exposed to credit risk, through the investments made by the Clackamas County Treasurer and the LGIP. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a national statistical rating organization.

The District follows Clackamas County's policies to address credit risk, which mirror parameters for the investment of public funds set forth in the ORS. Reference should be made to the Clackamas County Comprehensive Annual Financial Reports for information about the interest, credit, and custodial credit risks associated with the County's various cash and investments.

The State of Oregon LGIP is unrated. Investments with the County Treasurer are invested in US Treasury or US Agencies rated AAA or AA+.

## **3. Accounts Receivable**

Amounts are comprised of the following:

	2017	2016
Sewerage charges	\$ 799,667	\$ 926,380
Connection charges from cities	511,819	103,041
Pump station charges	80	1,685
Intergovernmental agreement and miscellaneous receivables	199,789	198,277
	<u>\$ 1,511,355</u>	<u>\$ 1,229,383</u>

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

**4. Capital Assets**

Changes in capital assets for the year ended June 30, 2017 were as follows:

	Balance June 30, 2016	Additions	Transfers	Deletions	Balance June 30, 2017
Capital assets not being depreciated:					
Land and easements	\$ 3,514,699	\$ -	\$ -	\$ -	\$ 3,514,699
Construction in progress	1,068,816	885,165	(383,541)	(4,743)	1,565,697
Total capital assets, not being depreciated	4,583,515	885,165	(383,541)	(4,743)	5,080,396
Capital assets being depreciated and amortized:					
Intangibles	1,040,218	-	-	-	1,040,218
Collection plant	20,244,167	130,154	225,990	-	20,600,311
Pumping plant	5,612,671	-	24,992	(15,632)	5,622,031
Treatment plant	58,083,176	-	119,710	-	58,202,886
General plant	7,967,447	-	12,849	-	7,980,296
Total capital assets being depreciated and amortized	92,947,679	130,154	383,541	(15,632)	93,445,742
Less accumulated depreciation and amortization for:					
Intangibles	(1,040,216)	-	-	-	(1,040,216)
Collection plant	(10,165,802)	(429,938)	-	-	(10,595,740)
Pumping plant	(3,459,472)	(197,405)	-	15,632	(3,641,245)
Treatment plant	(40,425,876)	(1,644,085)	-	-	(42,069,961)
General plant	(5,412,880)	(310,398)	-	-	(5,723,278)
Total accumulated depreciation and amortization	(60,504,246)	(2,581,826)	-	15,632	(63,070,440)
Total capital assets being depreciated and amortized, net	32,443,433	(2,451,672)	383,541	-	30,375,302
Total capital assets, net	\$ 37,026,948	\$ (1,566,507)	\$ -	\$ (4,743)	\$ 35,455,698

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

**4. Capital Assets - Continued**

Changes in capital assets for the year ended June 30, 2016 were as follows:

	Balance July 1, 2015	Additions	Transfers	Deletions	Balance June 30, 2016
Capital assets not being depreciated:					
Land and easements	\$ 3,514,699	\$ -	\$ -	\$ -	\$ 3,514,699
Construction in progress	708,177	1,210,719	(850,080)	-	1,068,816
Total capital assets, not being depreciated	4,222,876	1,210,719	(850,080)	-	4,583,515
Capital assets being depreciated and amortized:					
Intangibles	1,040,218	-	-	-	1,040,218
Collection plant	20,212,163	-	32,004	-	20,244,167
Pumping plant	4,930,831	-	710,618	(28,778)	5,612,671
Treatment plant	58,026,079	-	57,097	-	58,083,176
General plant	7,917,086	-	50,361	-	7,967,447
Total capital assets being depreciated and amortized	92,126,377	-	850,080	(28,778)	92,947,679
Less accumulated depreciation and amortization for:					
Intangibles	(1,040,216)	-	-	-	(1,040,216)
Collection plant	(9,732,813)	(432,989)	-	-	(10,165,802)
Pumping plant	(3,361,423)	(126,827)	-	28,778	(3,459,472)
Treatment plant	(38,129,963)	(2,295,913)	-	-	(40,425,876)
General plant	(5,040,244)	(372,636)	-	-	(5,412,880)
Total accumulated depreciation and amortization	(57,304,659)	(3,228,365)	-	28,778	(60,504,246)
Total capital assets being depreciated and amortized, net	34,821,718	(3,228,365)	850,080	-	32,443,433
Total capital assets, net	\$ 39,044,594	\$ (2,017,646)	\$ -	\$ -	\$ 37,026,948

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

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**5. State Revolving Loan**

The District had a state revolving loan from the Department of Environmental Quality which was obtained for the purpose of acquiring capital assets. Payments of \$54,426 were due in 2016 and were paid. The original amount of this loan was \$756,352. At June 30, 2016, the loan was paid in full.

Changes in state revolving loan payable for the year are as follows:

Balance July 1, 2015	\$ 54,426
Payments	<u>(54,426)</u>
Balance June 30, 2016	-
Current portion	<u>-</u>
Long-term portion	<u><u>\$ -</u></u>

**6. Related Party Transactions**

The Clackamas County Board of Commissioners serves as the Board of Directors for the following related parties:

- Clackamas County
- Clackamas County Service District No. 1
- Clackamas County Service District No. 5
- Clackamas County Development Agency
- Surface Water Management Agency of Clackamas County
- Housing Authority of Clackamas County
- North Clackamas Parks and Recreation District
- Clackamas County Enhanced Law Enforcement District
- Estacada Area County Service District for Library Services
- Library District of Clackamas County
- Clackamas County Extension and 4-H Service District

Clackamas County employees, working on behalf of Water Environment Services and Clackamas County Service District No. 1, perform certain fiscal, accounting and sewerage operations for which the District was charged \$3,207,244 and \$3,144,392 for fiscal years 2017 and 2016, respectively. At June 30, related party balances amounted to \$71,956 and \$71,201 for 2017 and 2016, respectively.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

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**6. Related Party Transactions, Continued**

On May 12, 2011, the District and CCSD No. 1 amended the 2008 IGA to address the future sharing of operations and maintenance expenses that arise from the joint operation of the Districts' assets at the TCWRRF. Per the amendment, CCSD No. 1's annual cost share is based on CCSD No. 1's estimated use of Tri-City's facilities, which is evaluated on an annual basis by management. In 2016-17, CCSD No. 1's cost-share amount was approximately \$980,000, or 25% of total plant operating and maintenance costs. In 2015-16, CCSD No. 1's share was approximately \$861,000. The District and CCSD No. 1 are co-managed with the goal of maintaining stable costs for both districts.

On January 6, 2011, the District entered into an IGA with CCSD No. 1 for treatment of biosolids. Per the terms of this IGA, Clackamas County Service District No. 1 paid Tri-City Service District \$354,963 in 2016-17 and \$321,158 in 2015-16 for biosolids treatment services.

**7. Stewardship, Compliance, and Accountability**

**Budget**

The District is required by state law to budget its operations on a fund basis. The budget is generally prepared on the modified accrual basis of accounting. The resolution authorizing appropriations for the District's funds sets the level by which expenditures cannot legally exceed appropriations.

Appropriations are made at the principal object level - materials and services, interfund transfers, capital outlay, debt service, special payments, reserve, and contingency – which are the levels of control established by the resolution. The detail budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories. Management may make transfers of appropriations within object levels. However, transfers of appropriations among object levels require approval by the Board.

Unexpected additional resources may be added to the budget through the use of a supplemental budget. The Board, at a regular Board meeting, may adopt a supplemental budget less than 10% of the fund's original budget. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publications in newspapers and approval by the Board. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control and require approval by the Board.

During the fiscal year, the Board approved a supplemental budget for the District greater than 10% in order to accomplish the integration of the District into the municipal partnership Water Environment Services. Both the original adopted budget and the revised budget comparisons are presented in the accompanying budget schedules. All annual appropriations lapse at fiscal year end.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

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**8. Commitments**

The District has entered into agreements with the cities of Oregon City, West Linn and Gladstone. Pertinent terms of these agreements are as follows:

- The Cities will process and review all permit applications for hookup and inspection; operate and maintain local collection facilities; bill and collect sewer user charges and connection charges.
- The Cities will collect and remit a contractual percentage of connection charges to the District.
- The Cities will bill and collect sewer user charges bimonthly according to the rate schedule provided by the District.
- Should the District fail to perform services outlined in these agreements, the Cities can terminate the agreement upon 30 days written notice.

In accordance with the terms of these agreements, the following fees and charges were earned by the District:

	<u>2017</u>	<u>2016</u>
Sewerage user fees	\$ 7,964,971	\$ 7,365,050
Connection charges	940,328	848,937
Pump station maintenance charges	<u>1,049</u>	<u>5,673</u>
	<u>\$ 8,906,348</u>	<u>\$ 8,219,660</u>

The District is committed under contractual agreements for various multi-year contracts related to capital acquisition and service agreements. The total contract costs are approximately \$3,264,000. As of June 30, 2017, approximately \$1,807,000 of these contracts remain outstanding.

**9. Litigation**

The District has various claims and pending legal proceedings outstanding. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by the District. In the opinion of management, the ultimate disposition of such proceedings is not expected to have a material adverse effect on the District.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

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**10. Risk Management**

The District purchases insurance coverage for automobile, flood, earthquake, liability, machinery, and business risks. These policies are subject to minimum deductibles.

An IGA between the District and Clackamas County clarifies that for workers' compensation and employment practice liability issues, the District participates in the County's risk management pool. All employees of the District are contracted from the County. The County is responsible for any workers' compensation risk. All risk of loss related to the self-insurance program is borne by the County. The County is fully self-insured for unemployment benefits, short-term disability benefits, employment practice liability issues, and partially self-insured for dental benefits and workers' compensation. The County carries coverage in excess of \$1,000,000 with an outside insurer for workers' compensation claims. Settled claims have not reached the commercial coverage in any of the past three fiscal years. No significant reduction in insurance coverage has occurred in the current year for any category of risk.

**11. Pollution Remediation**

The District entered into an agreement with the State of Oregon Department of Environmental Quality (DEQ) on June 2, 2000 which requires the District to perform certain, specific pollution remediation measures on property owned by the District adjacent to the TCWRRF which had been used for municipal refuse. The agreement does not have a specific date by which these remediation efforts must be completed. Rather, these measures are to be taken at a time in the future if the District decides to expand the TCWRRF property to provide additional treatment capacity.

On July 19, 2012 the DEQ issued a Consent Order to CCSD No. 1 and the District. The purpose of the agreement was to: (a) protect the public health, safety, and welfare and the environment through the design and implementation of remedial measures on the Blue Heron site; (b) to facilitate productive reuse of the property; and (c) to provide CCSD No. 1 and the District with protection from potential liabilities in accordance with applicable law. The Remedial Investigation Report and Human Health and Ecological Risk Assessments commissioned by WES on behalf of CCSD No. 1 and the District were accepted by DEQ on June 18, 2014. In July 2016, CCSD No. 1 and the District continued an alternatives evaluation. CCSD No. 1 and the District will be reviewing the alternatives to determine if the site will remain unused or remediation efforts will commence. The District has determined that no obligating events have occurred as of June 30, 2017 therefore no liability has been recorded.



TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2017 and 2016

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**12. Subsequent Events**

The District and CCSD1 entered into an ORS 190 Partnership Agreement on November 3, 2016 (the "Agreement"). Pursuant to this Agreement, the two districts formed a new municipal entity called "Water Environment Services" ("WES") to jointly own, operate and manage the functions and assets of the two districts to provide reduced costs, create regulatory efficiencies, and improved service. SWMACC joined the WES entity on May 18, 2017 to allow full realization of the above-described benefits for all parties. All three members of WES are included as blended component units in the Comprehensive Annual Financial Report of Clackamas County, Oregon.

On July 1, 2017, the District transferred the assets and liabilities comprising all of its operations to WES.

The net position of the District transferred to WES was \$50,571,140 and no consideration was given in return. As a result of the transfer, the District will recognize a loss of \$50,571,140 on the disposal of its operations as a special item for fiscal year 2018.

Transfer date carrying values of the assets and liabilities comprising the net position transferred are detailed in the schedule below:

**7/1/2017 Carrying Values of Assets and Liabilities Transferred**

ASSETS	
Current assets	\$ 13,302,864
Capital assets	35,455,698
Other non-current assets	2,257,943
TOTAL ASSETS	<u>51,016,505</u>
LIABILITIES	
Current liabilities	<u>445,365</u>
TOTAL LIABILITIES	<u>\$ 445,365</u>

The District's fiscal year 2017 expense related to its transferred operations totaled approximately \$8.97 million. Fiscal year 2017 revenues associated with the District's transferred operations totaled approximately \$8.85 million. Non-operating revenue for fiscal year 2017 was approximately \$100 thousand.

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# Supplementary Information





TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
DESCRIPTION OF BUDGETARY FUNDS

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Basis of Accounting

For financial reporting and operating purposes, management considers the District's activities as those of a unitary enterprise operation and, as such, those activities are reported in a single enterprise fund in the preceding section of this report. However, for budgetary and legal purposes those activities are accounted for in the funds described below. Schedules for these funds, prepared on a budgetary basis, generally on the accrual basis of accounting, are shown on the following pages.

Fund Descriptions

General Fund

The General Fund accounts for all activities not accounted for by the District's other funds, primarily sewer operations. The primary resources are sewerage service charges and intergovernmental revenue.

System Development Charge Fund

The System Development Charge Fund (SDC) accounts for sanitary sewer capital expenditures related to growth or increased capacity. The primary resources are connection charges.

State Revolving Loan Debt Service Fund

The State Revolving Loan Debt Service Fund accounts for payment of the Department of Environmental Quality loan. The primary revenue source is an operating transfer from the General Fund.

Construction Fund

The Construction Fund accounts for non-SDC sanitary sewer capital expenditures. The primary revenue resources are transfers from the General Fund and interest earnings.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
GENERAL FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
for the year ended June 30, 2017  
(with comparative totals for the year ended June 30, 2016)

	2017				
	Original Budget	Final Budget	Actual	Variance with Final Budget	2016 Actual
REVENUES:					
Sewerage user charges	\$ 8,346,705	\$ 8,346,705	\$ 8,195,657	\$ (151,048)	\$ 7,566,349
Interest on investments	19,148	19,148	37,933	18,785	13,659
Pump station operation charges	5,500	5,500	1,049	(4,451)	5,673
Intergovernmental revenue	350,000	350,000	354,963	4,963	321,158
Miscellaneous	244,600	2,927,728	287,091	(2,640,637)	255,911
Total revenues	8,965,953	11,649,081	8,876,693	(2,772,388)	8,162,750
EXPENDITURES:					
Materials and services	7,649,946	7,649,946	6,445,135	(1,204,811)	6,124,952
Special Payments	-	5,732,424	-	(5,732,424)	-
Contingency	1,274,991	-	-	-	-
Total expenditures	8,924,937	13,382,370	6,445,135	(6,937,235)	6,124,952
Revenues over (under) expenditures	41,016	(1,733,289)	2,431,558	4,164,847	2,037,798
OTHER FINANCING USES:					
Transfers to other funds:					
State Revolving Loan Fund	-	-	-	-	(1,193)
Sanitary Sewer Construction Fund	(2,500,000)	(2,500,000)	(2,500,000)	-	(1,000,000)
Total transferred to other funds	(2,500,000)	(2,500,000)	(2,500,000)	-	(1,001,193)
Net change in fund balance	(2,458,984)	(4,233,289)	(68,442)	4,164,847	1,036,605
Fund balance - beginning	3,191,408	4,233,289	4,233,289	-	3,196,684
Fund balance - ending	\$ 732,424	\$ -	4,164,847	\$ 4,164,847	\$ 4,233,289
Adjustment to GAAP basis:					
Capital assets (net of accumulated depreciation)			35,455,698		
Interest receivable			3,165		
Net position - GAAP basis			\$ 39,623,710		

TRI-CITY SERVICE DISTRICT  
 (A Component Unit of Clackamas County, Oregon)  
 SYSTEM DEVELOPMENT CHARGE FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL  
 for the year ended June 30, 2017  
 (with comparative totals for the year ended June 30, 2016)

	2017				
	Original Budget	Final Budget	Actual	Variance with Final Budget	2016 Actual
REVENUES:					
Connection charges	\$ 720,000	\$ 720,000	\$ 976,273	\$ 256,273	\$ 853,737
Miscellaneous Income	-	1,526,802	-	(1,526,802)	-
Interest on investments	11,511	11,511	18,827	7,316	6,434
Total revenues	<u>731,511</u>	<u>2,258,313</u>	<u>995,100</u>	<u>(1,263,213)</u>	<u>860,171</u>
EXPENDITURES:					
Capital Outlay	925,000	925,000	392,567	(532,433)	47,997
Special Payments	-	3,500,000	-	(3,500,000)	-
Contingency	231,250	-	-	-	-
Total expenditures	<u>1,156,250</u>	<u>4,425,000</u>	<u>392,567</u>	<u>(4,032,433)</u>	<u>47,997</u>
Revenues over (under) expenditures	<u>(424,739)</u>	<u>(2,166,687)</u>	<u>602,533</u>	<u>2,769,220</u>	<u>812,174</u>
Net change in fund balance	<u>(424,739)</u>	<u>(2,166,687)</u>	<u>602,533</u>	<u>2,769,220</u>	<u>812,174</u>
Fund balance - beginning	<u>1,918,506</u>	<u>2,166,687</u>	<u>2,166,687</u>	<u>-</u>	<u>1,354,513</u>
Fund balance - ending	<u>\$ 1,493,767</u>	<u>\$ -</u>	<u>2,769,220</u>	<u>\$ 2,769,220</u>	<u>\$ 2,166,687</u>
Adjustment to GAAP basis:					
Interest receivable			<u>2,124</u>		
Net position - GAAP basis			<u>\$ 2,771,344</u>		

TRI-CITY SERVICE DISTRICT  
 (A Component Unit of Clackamas County, Oregon)  
 STATE REVOLVING LOAN DEBT SERVICE FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL  
 for the year ended June 30, 2017  
 (with comparative totals for the year ended June 30, 2016)

	2017				
	Original Budget	Final Budget	Actual	Variance with Final Budget	2016 Actual
REVENUES:					
Interest on investments	\$ 3	\$ 3	\$ 4	\$ 1	\$ 193
Miscellaneous Income	-	500	-	(500)	-
Total revenues	3	503	4	(499)	193
EXPENDITURES:					
Principal	-	-	-	-	54,426
Interest	-	-	-	-	1,767
Special Payments	-	1,008	-	(1,008)	-
Total expenditures	-	1,008	-	(1,008)	56,193
Revenues over (under) expenditures	3	(505)	4	509	(56,000)
OTHER FINANCING SOURCES:					
Transfer from other funds:					
General Fund	-	-	-	-	1,193
Net change in fund balance	3	(505)	4	509	(54,807)
Fund balance - beginning	505	505	537	32	55,344
Fund balance - ending	<u>\$ 508</u>	<u>\$ -</u>	541	<u>\$ 541</u>	<u>\$ 537</u>
Adjustment to GAAP basis:					
Interest payable			-		
Interest receivable			1		
Net position - GAAP basis			<u>\$ 542</u>		



TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
CONSTRUCTION FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
for the year ended June 30, 2017  
(with comparative totals for the year ended June 30, 2016)

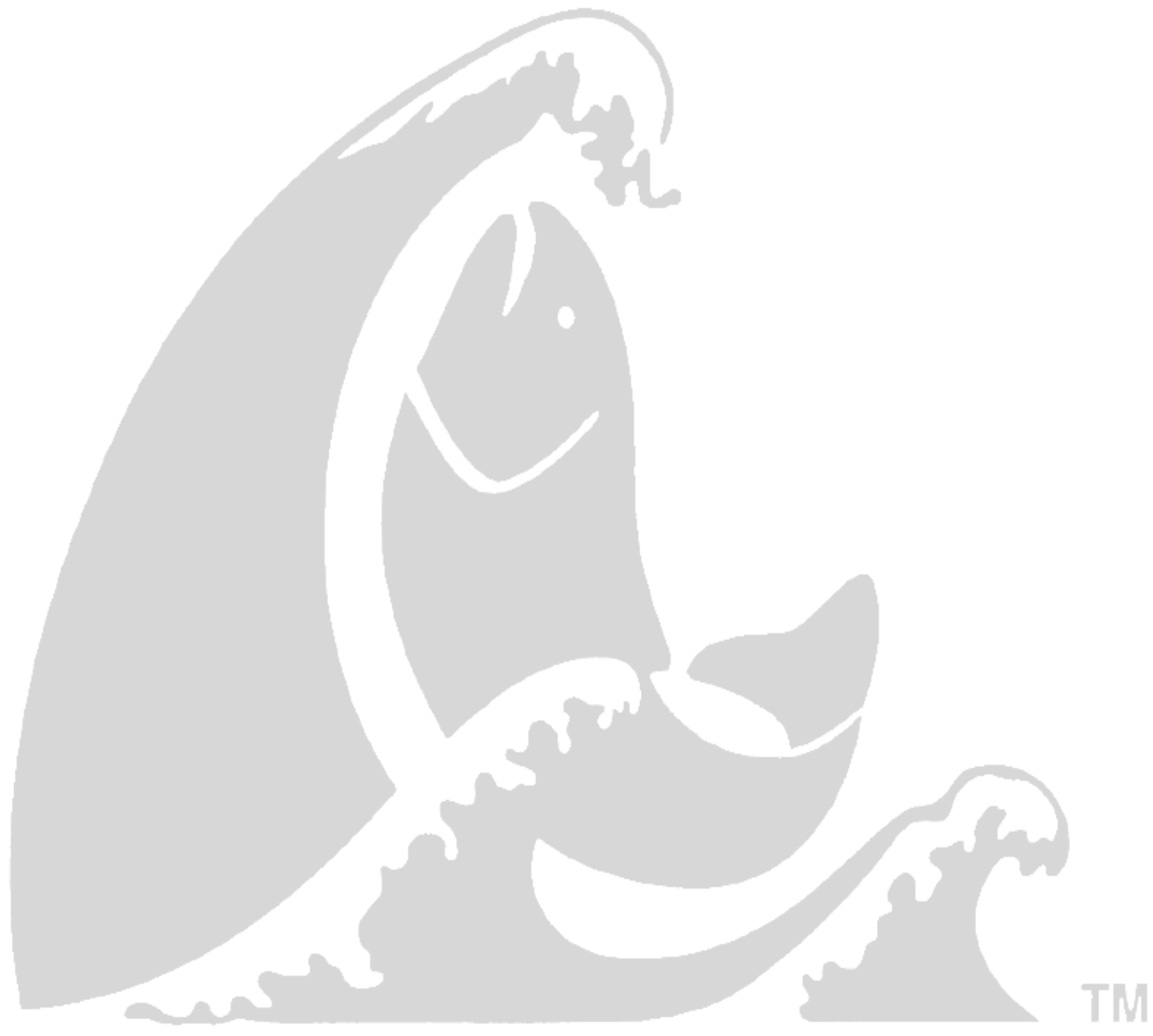
	2017				
	Original Budget	Final Budget	Actual	Variance with Final Budget	2016 Actual
REVENUES:					
Interest on investments	\$ 35,172	\$ 35,172	\$ 43,962	\$ 8,790	\$ 20,484
Miscellaneous	-	2,620,070	33,446	(2,586,624)	-
Total revenues	35,172	2,655,242	77,408	(2,577,834)	20,484
EXPENDITURES:					
Capital Outlay	2,184,100	2,184,100	438,513	(1,745,587)	1,090,572
Special Payments	-	9,000,000	-	(9,000,000)	-
Contingency	546,025	-	-	-	-
Total expenditures	2,730,125	11,184,100	438,513	(10,745,587)	1,090,572
Revenues over (under) expenditures	(2,694,953)	(8,528,858)	(361,105)	8,167,753	(1,070,088)
OTHER FINANCING SOURCES:					
Transfer from other funds:					
General Fund	2,500,000	2,500,000	2,500,000	-	1,000,000
Net change in fund balance	(194,953)	(6,028,858)	2,138,895	8,167,753	(70,088)
Fund balance - beginning	5,861,941	6,028,858	6,028,858	-	6,098,946
Fund balance - ending	\$ 5,666,988	\$ -	8,167,753	\$ 8,167,753	\$ 6,028,858
Adjustment to GAAP basis:					
Interest receivable			7,791		
Net position - GAAP basis			\$ 8,175,544		

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
SUMMARY OF NET POSITION  
BY FUND  
for the year ended June 30, 2017

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Fund	Description	Net Position GAAP Basis
201	General Fund	\$ 39,623,710
202	System Development Charge Fund	2,771,344
205	State Revolving Loan Debt Service Fund	542
209	Construction Fund	<u>8,175,544</u>
	Total Net Position	<u><u>\$ 50,571,140</u></u>

# Statistical Section



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## STATISTICAL SECTION

This section provides further details as a context for a better understanding of the financial statements.

<b>Contents</b>	<b>Page</b>
Financial Trends These schedules contain trend information to help the reader understand how financial performance has changed over time.	35
Revenue Capacity These schedules contain information to help the reader assess the District's most significant revenue source: user fees.	37
Debt Capacity These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future. The District does not have any indebtedness subject to the legal debt limitation in accordance with Oregon Revised Statutes 451.545; consequently, the schedule of the computation of legal debt margin is not included in the statistical section.	39
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	41
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	44

Source: The information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year, unless otherwise noted.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

NET POSITION BY COMPONENT  
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Net Investment in Capital Assets	Restricted	Unrestricted	Net Position
2008	\$ 43,353,751	\$ 3,769,440	\$ 7,687,017	\$ 54,810,208
2009	42,485,598	2,691,978	8,534,626	53,712,202
2010	41,408,645	2,364,189	9,277,358	53,050,192
2011	43,984,351	547,548	10,590,998	55,122,897
2012	44,095,142	779,726	8,117,477	52,992,345
2013	43,206,498	824,911	7,863,401	51,894,810
2014	41,379,824	1,062,390	7,974,119	50,416,333
2015	38,990,168	1,332,944	9,382,614	49,705,726
2016	37,026,948	2,079,065	10,359,082	49,465,095
2017	35,455,698	2,257,943	12,857,499	50,571,140

Source: District's Comprehensive Annual Financial Report

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

CHANGES IN NET POSITION  
Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Operating revenues:</b>										
Sewerage charges	\$ 4,193,334	\$ 4,047,775	\$ 4,150,524	\$ 4,262,043	\$ 4,597,918	\$ 5,391,483	\$ 6,188,372	\$ 7,101,531	\$ 7,566,349	\$ 8,195,657
Intergovernmental revenues	584,680	692,530	1,125,220	4,877,816	246,358	711,756	348,655	498,555	321,158	354,963
Other operating revenues	48,814	56,333	566,542	(421,824)	72,597	256,369	250,163	271,055	261,584	301,501
Total operating revenues	4,826,828	4,796,638	5,842,286	8,718,035	4,916,873	6,359,608	6,787,190	7,871,141	8,149,091	8,852,121
<b>Operating expenses:</b>										
Contracted salaries and benefits	1,761,940	1,767,790	1,901,624	2,056,000	2,032,633	2,226,661	2,218,110	2,220,985	2,395,695	2,480,481
Professional services	183,130	95,408	307,227	402,191	441,162	310,564	330,236	306,083	349,563	434,975
Laboratory services	253,990	263,613	268,635	269,265	290,332	295,917	263,337	292,811	286,102	248,562
Other County services	277,522	291,847	293,702	327,698	295,387	325,194	421,671	445,204	468,916	502,346
Supplies	506,603	685,573	613,043	590,176	638,717	745,411	939,592	924,591	883,487	1,051,271
Vehicle expenses	194,305	119,498	125,979	183,220	166,813	214,779	167,553	209,577	140,155	180,640
Repairs and maintenance	89,451	87,762	68,361	65,991	63,893	59,547	29,625	29,643	33,637	32,752
Utilities	668,224	711,955	699,809	554,556	806,086	773,434	781,182	813,661	821,307	723,413
Insurance	75,889	80,377	80,846	79,800	93,254	116,224	131,435	129,097	154,093	156,847
Other expenses	147,498	190,811	196,324	173,533	211,398	156,102	412,011	467,237	520,168	579,765
Depreciation and amortization	2,024,142	2,183,526	2,191,524	2,226,580	2,725,761	3,001,195	2,995,897	3,152,395	3,228,365	2,581,826
Total operating expenses	6,182,694	6,478,160	6,747,074	6,929,010	7,765,436	8,225,028	8,690,649	8,991,284	9,281,488	8,972,878
Operating income (loss)	(1,355,866)	(1,681,522)	(904,788)	1,789,025	(2,848,563)	(1,865,420)	(1,903,459)	(1,120,143)	(1,132,397)	(120,757)
<b>Nonoperating revenue (expense):</b>										
Interest income	386,854	228,743	44,854	56,316	38,236	43,813	27,246	54,365	38,392	105,031
Interest expense	(17,561)	(15,731)	(13,827)	(11,847)	(9,787)	(7,190)	(5,084)	(3,096)	(684)	-
Property taxes	(44)	-	-	-	-	-	-	-	-	-
Grants	-	1,500	-	-	-	-	-	-	-	-
Gain (loss) on disposal of capital assets	(1,833,836)	(17,178)	(235,887)	(18,154)	46,095	(184,640)	(48,557)	2,737	321	(3,103)
Total nonoperating revenue (expense)	(1,464,587)	197,334	(204,860)	26,315	74,544	(148,017)	(26,395)	54,006	38,029	101,928
Income (loss) before contributions	(2,820,453)	(1,484,188)	(1,109,648)	1,815,340	(2,774,019)	(2,013,437)	(1,929,854)	(1,066,137)	(1,094,368)	(18,829)
<b>Contributions:</b>										
Connection charges	516,098	386,182	447,638	257,365	643,467	915,902	451,377	345,370	853,737	976,273
Capital contributions	78,391	-	-	-	-	-	-	10,160	-	148,601
Total contributions	594,489	386,182	447,638	257,365	643,467	915,902	451,377	355,530	853,737	1,124,874
<b>Change in net position</b>	<u>\$ (2,225,964)</u>	<u>\$ (1,098,006)</u>	<u>\$ (662,010)</u>	<u>\$ 2,072,705</u>	<u>\$ (2,130,552)</u>	<u>\$ (1,097,535)</u>	<u>\$ (1,478,477)</u>	<u>\$ (710,607)</u>	<u>\$ (240,631)</u>	<u>\$ 1,106,045</u>

Source: District's Comprehensive Annual Financial Report

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

MONTHLY SEWERAGE RATE AND SEWERAGE CHARGES REVENUE BY TYPE OF CUSTOMER  
Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Sewerage Rate</b>										
Monthly service charge	\$ 11.65	\$ 11.65	\$ 12.00	\$ 12.35	\$ 13.35	\$ 15.35	\$ 17.35	\$ 19.00	\$ 20.00	\$ 21.50
<b>Type of Customer</b>										
<b>Sewerage Charges</b>										
Cities <sup>(1)</sup>	\$ 4,041,439	\$ 3,899,616	\$ 4,007,261	\$ 4,117,476	\$ 4,447,446	\$ 5,219,665	\$ 6,007,072	\$ 6,909,626	\$ 7,365,050	\$ 7,964,971
Residential	129,096	129,954	130,416	130,977	131,304	149,100	159,945	173,006	179,280	186,093
Commercial	16,265	12,199	7,303	8,046	13,372	16,418	14,551	11,604	14,459	36,781
Industrial	990	462	-	-	-	-	-	-	-	-
Other	5,544	5,544	5,544	5,544	5,796	6,300	6,804	7,295	7,560	7,812
<b>Total</b>	<u>\$ 4,193,334</u>	<u>\$ 4,047,775</u>	<u>\$ 4,150,524</u>	<u>\$ 4,262,043</u>	<u>\$ 4,597,918</u>	<u>\$ 5,391,483</u>	<u>\$ 6,188,372</u>	<u>\$ 7,101,531</u>	<u>\$ 7,566,349</u>	<u>\$ 8,195,657</u>

Source: District's Records

<sup>(1)</sup> Cities of the District are Oregon City, West Linn, and Gladstone and account for more than ninety-five percent of total sewerage charges.



TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

PRINCIPAL RATEPAYERS WITHIN DISTRICT<sup>(1)</sup>  
Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Type of Customer</b>										
Wholesale:										
City of Oregon City	\$ 1,910,208	\$ 1,931,108	\$ 1,973,478	\$ 2,016,912	\$ 2,173,851	\$ 2,563,473	\$ 2,975,532	\$ 3,614,822	\$ 3,853,897	\$ 4,141,460
City of West Linn	1,572,612	1,408,952	1,454,904	1,504,384	1,627,985	1,910,728	2,169,789	2,383,462	2,531,694	2,720,015
City of Gladstone	<u>558,619</u>	<u>559,556</u>	<u>578,879</u>	<u>596,180</u>	<u>645,610</u>	<u>745,464</u>	<u>861,751</u>	<u>911,342</u>	<u>979,459</u>	<u>1,103,496</u>
Total	<u>\$ 4,041,439</u>	<u>\$ 3,899,616</u>	<u>\$ 4,007,261</u>	<u>\$ 4,117,476</u>	<u>\$ 4,447,446</u>	<u>\$ 5,219,665</u>	<u>\$ 6,007,072</u>	<u>\$ 6,909,626</u>	<u>\$ 7,365,050</u>	<u>\$ 7,964,971</u>

Source: District's Records

<sup>(1)</sup> Cities of the District are Oregon City, West Linn, and Gladstone and account for more than ninety-five percent of total sewerage charges.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

RATIOS OF OUTSTANDING DEBT BY TYPE  
Last Ten Fiscal Years

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Fiscal Year Ended June 30,	Loan Payable	Percentage of Personal Income	Per Capita
<u>2008</u>	<u>\$ 380,853</u>	<u>0.013 %</u>	<u>\$ 6</u>
2009	339,549	0.012	5
2010	296,585	0.010	4
2011	251,893	0.008	4
2012	205,405	0.006	3
2013	157,048	0.005	2
2014	106,748	0.003	2
2015	54,426	0.002	1
2016	-	N/A	-
2017	-	N/A	-

N/A: Not available

Source: District's records

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

OVERLAPPING GENERAL OBLIGATION BONDED DEBT  
June 30, 2017

Governmental Unit	Debt Outstanding	Percent Overlapping	Overlapping General Obligation Bonded Debt
<b>Debt repaid with property taxes</b>			
City of West Linn	\$ 15,940,000	99.99 %	\$ 15,938,406
Clackamas Community College	102,608,913	19.56	20,070,303
Clackamas County	155,330,136	14.39	22,352,007
Clackamas County School District #115 (Gladstone)	45,922,441	68.59	31,498,202
Clackamas County School District #12 (North Clackamas)	609,115,622	0.26	1,583,701
Clackamas County School District #3J (West Linn/Wilsonville)	229,668,066	46.21	106,129,613
Clackamas County School District #62 (Oregon City)	72,889,276	51.31	37,399,488
Clackamas County School District #7J (Lake Oswego)	90,618,476	0.34	308,103
Metro	183,510,000	3.47	6,367,797
Portland Community College	302,090,000	0.02	60,418
Tualatin Valley Fire & Rescue District	48,820,000	6.17	3,012,194
<b>Other Debt</b>			
City of Gladstone	1,473,000	69.35	1,021,526
City of Oregon City	18,803,759	88.42	16,626,284
Clackamas Community College	25,665,000	19.71	5,058,572
Clackamas County	1,400,000	14.48	202,720
Clackamas County Education Service District	22,820,637	15.24	3,477,865
Clackamas County Rural Fire Protection District #1	16,890,000	14.03	2,369,667
Metro	19,225,000	3.55	682,488
North Clackamas Parks & Rec District	8,500,000	0.00	
Port of Portland	62,108,214	3.27	2,030,939
Portland Community College	87,170,000	0.02	17,434
<b>Total overlapping debt</b>	<b>\$ 2,120,568,540</b>		<b>\$ 276,207,727</b>

Note:

(1) Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the District. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the District. The State of Oregon provides overlapping debt data based on real market valuation of properties for each jurisdiction.

(2) This schedule is provided for informational purposes only since Tri-City Service District has no bonded debt outstanding.

Source: Municipal Debt Advisory Commission, State of Oregon, Office of the Treasurer

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

DEMOGRAPHIC AND ECONOMIC STATISTICS  
Last Ten Fiscal Years

Ended June 30,	Population Estimate	Personal Income <sup>1, 2</sup>	Per Capita Personal Income <sup>1, 2</sup>	Unemployment Rate (PMSA)
2008	66,440	\$ 2,976,711,320	\$ 44,803	4.8 %
2009	67,020	2,925,154,920	43,646	11.3
2010	67,325	3,026,528,050	44,954	9.9
2011	67,665	3,106,838,475	45,915	9.1
2012	68,965	3,330,043,990	48,286	7.8
2013	69,365	3,430,307,345	49,453	7.2
2014	70,310	3,425,011,030	48,713	6.1
2015	70,795	3,508,954,175	49,565	5.4
2016	71,050	N/A	N/A	5.0
2017	71,515	N/A	N/A	3.8

N/A: Not available

Source: Center for Population Research and Census, U.S. Bureau of Labor Statistics and  
State of Oregon Employment Department

<sup>1</sup>2015 Personal Income and Per Capita Personal Income statistics revised November 2016.

<sup>2</sup>Figures are for calendar year; Personal Income and Per Capita Income for 2016 and 2017  
are not available.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

PRINCIPAL EMPLOYERS <sup>(1)</sup>  
Current Year and Nine Years Ago

Employer	2017			2008		
	Employees	Rank	Percentage of Total (2)	Employees	Rank	Percentage of Total (2)
Intel Corp.	19,500	1	.02 %	16,000	1	.01 %
Providence Health & Services	17,378	2	.01	12,000	4	.01
Oregon Health & Sciences University	15,424	3	.01	12,100	3	.01
Fred Meyer	11,200	4	.01	13,000	2	.01
Kaiser Permanente Northwest	10,269	5	.01	8,789	5	.01
Legacy Health System	9,300	6	.01	8,196	7	.01
Nike Inc.	8,500	7	.01	5,000	10	.00
Portland Public Schools	7,678	8	.01			
Multnomah County	6,189	9	.01			
City of Portland	5,667	10	.00	8,613	6	.01
Beaverton School District				5,000	9	.00
Wells Fargo Bank				5,306	8	.00
Total	<u>111,105</u>		<u>0.10 %</u>	<u>94,004</u>		<u>0.07 %</u>

Sources:

(1) Statistics are the latest available data published in the Portland Business Journal *Book of Lists 2017* and *Book of Lists 2008*. The Business Journal *Book of Lists* ranks Portland Metropolitan Area employers.

(2) Total Portland Metropolitan Area employment used to calculate percentages is from the Oregon Employment Department.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION  
Last Ten Fiscal Years

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Business & Financial Services	1	2	2	4	4	8	6	5	4	4
Asset & Capacity Management	2	1	1	1	1	3	2	2	1	1
Water Quality Services	14	14	15	14	13	15	14	17	19	19
Environmental Monitoring Services	4	4	3	4	3	2	2	1	2	2
Total	<u>21</u>	<u>21</u>	<u>21</u>	<u>23</u>	<u>21</u>	<u>28</u>	<u>24</u>	<u>25</u>	<u>26</u>	<u>26</u>

Water Environment Services is responsible for the general management and operation of Clackamas County Service District No. 1, Tri-City Service District, and the Surface Water Management Agency of Clackamas County. Employees when possible, directly charge their time to appropriate service districts. Otherwise, their time is allocated. Hence, employee counts listed above are expressed in full time equivalents devoted to Tri-City Service District operations.

Source: District's records

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

OPERATING INDICATORS BY FUNCTION  
Last Ten Fiscal Years

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Business-type activities:										
Sewerage charges:										
Monthly service charge	\$ 11.65	\$ 11.65	\$ 12.00	\$ 12.35	\$ 13.35	\$ 15.35	\$ 17.35	\$ 19.00	\$ 20.00	\$ 21.50
Total amount collected	\$ 4,193,334	\$ 4,047,775	\$ 4,150,524	\$ 4,262,043	\$ 4,597,918	\$ 5,391,483	\$ 6,188,372	\$ 7,101,531	\$ 7,566,349	\$ 8,195,657
Percentage increase/(decrease)	10.2	(3.5)	2.5	2.7	7.9	17.3	14.8	14.8	6.5	8.3
Connection fees/EDU	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,400	\$ 2,765
Total amount collected	\$ 516,098	\$ 386,182	\$ 447,638	\$ 257,365	\$ 643,467	\$ 915,902	\$ 451,377	\$ 345,370	\$ 853,737	\$ 976,273
Percentage increase/(decrease)	(45.0)	(25.2)	15.9	(42.5)	43.7	42.3	(50.7)	(23.5)	147.2	14.4
Hydraulic treatment capacities (in million gallons/day)	11	11	11	11	11	11.9	11.9	11.9	11.9	11.9
Current flows (in million gallons/day)	8.93	7.93	9.82	10.66	9.49	9.80	10.80	10.79	12.33	12.40

In Fiscal Year 2015-16, this chart has been revised for prior year treatment capacities.

Source: District's Records

Footnote: Residential EDU's equal one dwelling unit; commercial EDU's equal 1,900 sq. ft. of interior floor space or per quarter acre of land.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

CAPITAL ASSET STATISTICS BY FUNCTION  
Last Ten Fiscal Years

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Business-type activities:										
Sanitary sewer										
Treatment Plants	1	1	1	1	1	1	1	1	1	1
Pump Stations	4	4	4	4	4	4	4	4	4	4
Miles of pipe	17.25	17.25	17.25	17.25	17.25	17.25	19.07	19.07	19.07	19.39

In Fiscal Year 2013-14, this chart has been revised for prior year's miles of pipe data.

Source: District's records



# **Compliance Reports**



TM



## **Report of Independent Auditors 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***

Board of County Commissioners of  
Clackamas County, Oregon, as Governing Body of  
Tri-City Service District  
Oregon City, Oregon

We have audited, in accordance with the 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 Tri-City Service District (the District), a component unit of Clackamas County, Oregon as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 16, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity'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 District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Moss Adams, LLP*

Eugene, Oregon

November 16, 2017

# **Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Oregon Minimum Auditing Standards**

Board of County Commissioners of  
Clackamas County, Oregon, as Governing Body of  
Tri-City Service District  
Oregon City, Oregon

We have audited the basic financial statements of Tri-City Service District (the District), a component unit of Clackamas County, Oregon, as of and for the year ended June 30, 2017, and have issued our report thereon dated November 16, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Oregon Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

## **Compliance**

As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

OAR	Section	Instances of Non-Compliance Identified?
162-010-0000	Preface	None Noted
162-010-0010	Definitions	None Noted
162-010-0020	Introduction	None Noted
162-010-0030	General Requirements	None Noted
162-010-0050	Financial Statements	None Noted
162-010-0115	Required Supplementary Information (RSI)	None Noted
162-010-0120	Other Supplementary Information	None Noted
162-010-0130	Schedule of Revenues, Expenditures / Expenses, and Changes in Fund Balances, / Net Position, Budget and Actual (Each Fund)	None Noted
162-010-0140	Schedule of Accountability for Independently Elected Officials	Not applicable
162-010-0150	Schedule of Property Tax Transactions or Acreage Assessments	Not applicable
162-010-0160	Schedule of Bonded or Long-Term Debt Transactions	None Noted
162-010-0170	Schedule of Future Requirements for Retirement of Bonded or Long-Term Debt	None Noted
162-010-0190	Other Financial or Statistical Information	None Noted
162-010-0200	Required Disclosures and Independent Auditors Comments	None Noted
162-010-0230	Accounting Records and Internal Control	None Noted
162-010-0240	Public Fund Deposits	None Noted
162-010-0250	Indebtedness	None Noted
162-010-0260	Budget	None Noted
162-010-0270	Insurance and Fidelity Bonds	None Noted
162-010-0280	Programs Funded from Outside Sources	None Noted
162-010-0295	Highway Funds	Not applicable
162-010-0300	Investments	None Noted
162-010-0310	Public Contracts and Purchasing	None Noted
162-010-0315	State School Fund	Not applicable
162-010-0316	Public Charter Schools	Not applicable
162-010-0320	Other Comments and Disclosures	None Noted
162-010-0330	Extensions of Time to Deliver Audit Reports	Not applicable

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 that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

### **Internal Control over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Purposes of this Report**

This report is intended solely for the information and use of the Audit Committee, Board of County Commissioners, management, and the State of Oregon and is not intended to be and should not be used by anyone other than these specified parties.



James C. Lanzarotta, Partner  
for Moss Adams LLP  
Eugene, Oregon  
November 16, 2017



