

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
*For the fiscal year ended June 30, 2018*

# Water Environment Services

(A Component Unit of Clackamas County, Oregon)





WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

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COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the fiscal year ended June 30, 2018

Prepared by:  
WATER ENVIRONMENT SERVICES  
Finance

Douglas Waugh  
Finance Manager

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

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WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

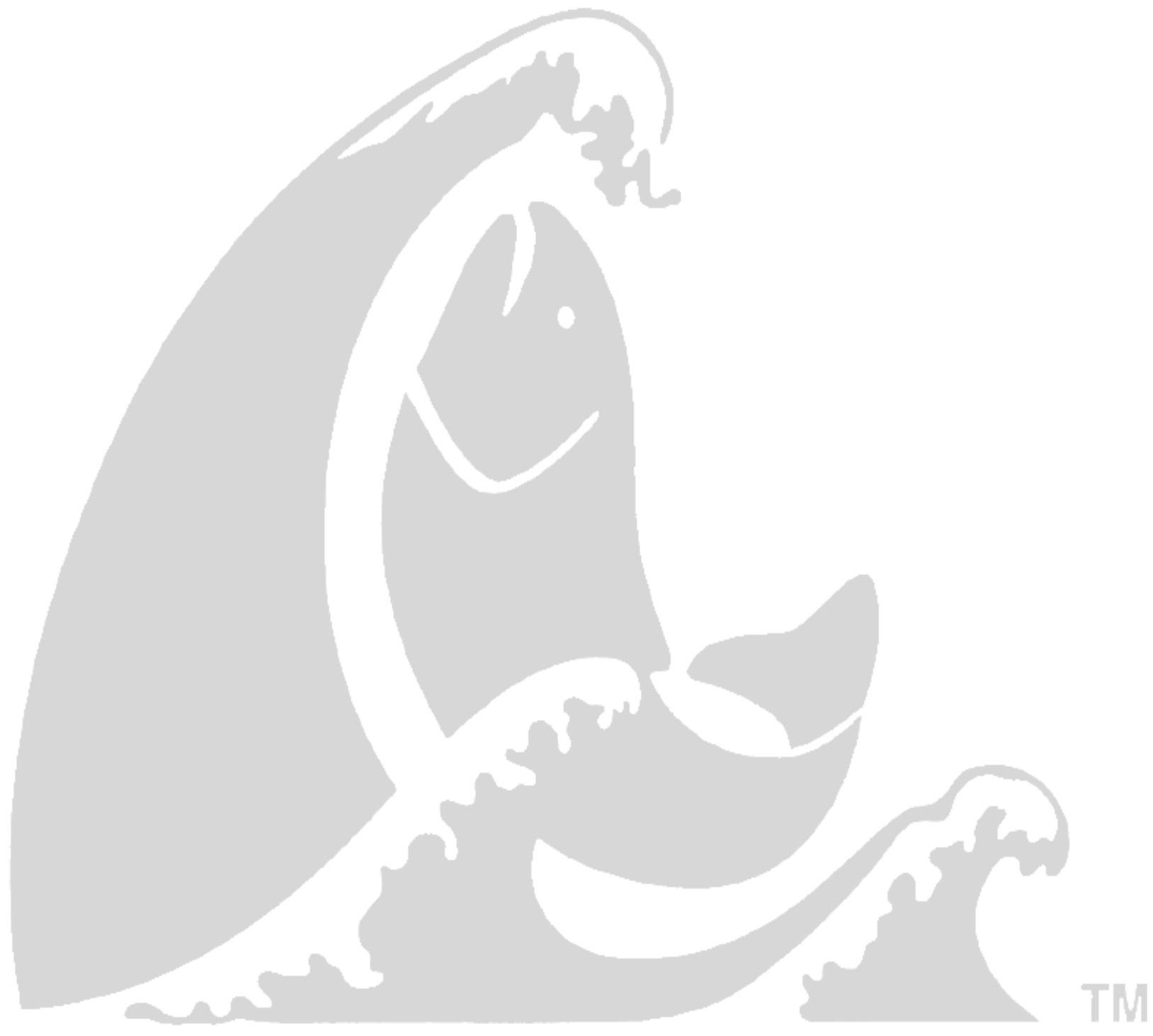
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# Introductory Section



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WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

GOVERNING BODY UNDER ORS 190.010  
BOARD OF COUNTY COMMISSIONERS  
CLACKAMAS COUNTY, OREGON  
Public Services Building  
2051 Kaen Road  
Oregon City, Oregon 97045

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COMMISSIONERS AS OF JUNE 30, 2018

<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

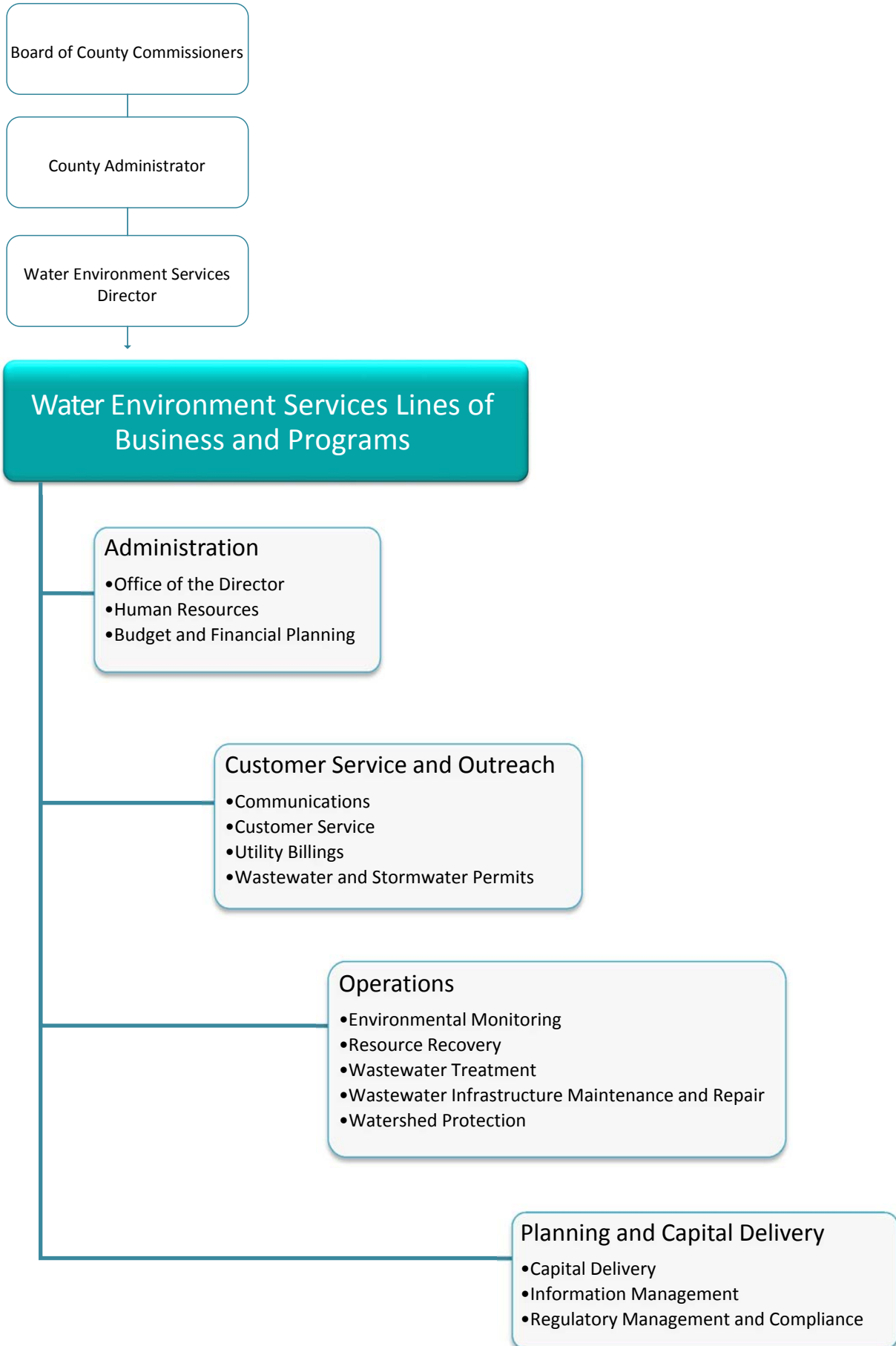
DISTRICT ADMINISTRATOR

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  
FY 2018





November 15, 2018

Board of County Commissioners of Clackamas  
County, Oregon, as the Governing Body of  
Water Environment Services  
Oregon City, Oregon

The Comprehensive Annual Financial Report for Water Environment Services (WES) (a Component Unit of Clackamas County, Oregon) for the year ended June 30, 2018, is submitted herewith. This report was prepared by the Finance section of Water Environment Services, a Department of Clackamas County (the Department), which administers WES, 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 WES at June 30, 2018, and for the year then ended.

The Department's management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of WES 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. WES' 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  
Water Environment Services  
Oregon City, Oregon

### Water Environment Services – The Department

Water Environment Services of Clackamas County (the Department) was originally created in August 1984 to administer County service districts formed within Clackamas County, Oregon under the provisions of ORS Chapter 451. This enabling legislation established County service districts as independent municipal corporations authorized to provide a specific service within specified boundaries in the County. Prior to fiscal year 2018, the Department administered the Tri-City Service District (TCSD) (sewer services), Clackamas County Service District No. 1 (CCSD No. 1) (sewer and surface water management), and the Surface Water Management Agency of Clackamas County (SWMACC) (surface water services). For fiscal year 2018, the Department administered WES (described further below) and CCSD No. 1. Since each of these were separate legal entities in 2018, audited financial statements are prepared for each.

As specified by ORS 190 and ORS 451, the governing body for both of these entities was and continues to be the Board of County Commissioners of Clackamas County, Oregon, and the County Administrator continues to serve as the Administrator for each. As separate legal entities, the operations of each were 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.

### Water Environment Services (WES)

Water Environment Services (WES) is a municipal partnership created in November 2016 through an Oregon Revised Statute (ORS) 190 agreement (“the Agreement”) between CCSD No. 1 and TCSD. The Agreement was amended in May of 2017 to also include SWMACC. For fiscal year 2018, the year covered by this audit, the operations of TCSD and SWMACC were transferred into WES, leaving the Department to manage WES and CCSD No. 1. On July 1, 2018, the operations of CCSD No. 1 were transferred in, leaving the Department to manage WES as a single, combined entity formed from the three original districts. 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.

WES was formed in order to provide long-term certainty and stability for the sanitary sewer and surface water customers in the three partner service districts.

Board of County Commissioners of Clackamas  
County, Oregon, as the Governing Body of  
Water Environment Services  
Oregon City, Oregon

Relevant Financial Policies

Relevant financial policies are addressed in Note 1 to the financial statements. In the current year no one policy produced a significant impact on the financial statements.

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 WES. Growth projections for the next five years are projected to be 2.9% on an annual average.

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

In July of 2012 TCSD and CCSD No. 1 purchased the former Blue Heron property in West Linn, Oregon. The 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 TCSD and CCSD No. 1 were accepted by the Department of Environmental Quality (DEQ) on June 18, 2014. In July 2016, TCSD and CCSD No. 1 continued an alternatives evaluation. Currently, WES will be reviewing the alternatives to determine if the site will remain unused or remediation efforts will commence. WES has determined that no obligating events have occurred as of June 30, 2018, therefore no liability has been recorded. Please refer to Note 11 on page 27 in the Notes to Basic Financial Statements for additional information.

Independent Audit

The provisions of ORS Sections 297.405 through 297.555, known as "Municipal Audit Law" require that an independent audit of WES' 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 WES management, have completed their audit of WES' financial statements and have included their report in the Financial Section of this report.

Board of County Commissioners of Clackamas  
County, Oregon, as the Governing Body of  
Water Environment Services  
Oregon City, Oregon

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

The Government Finance Officers Association of the United States and Canada (GFOA) has established a Certificate of Achievement for Excellence in Financial Reporting program which recognizes excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

We believe WES' comprehensive annual financial report for the year ended June 30, 2018 meets the Certificate of Achievement Program's requirements and we will be submitting it to the GFOA to determine its eligibility. To that end, we will advise the Board of the results of the GFOA's review of our report.

### Awards and Acknowledgments

WES received the GFOA's Distinguished Budget Presentation Award for its first annual budget for the 2017-18 fiscal year. In order to qualify for the Distinguished Budget Presentation Award, the budget document must meet program criteria as a policy document, as a financial plan, as an operations guide, and as a communications device.

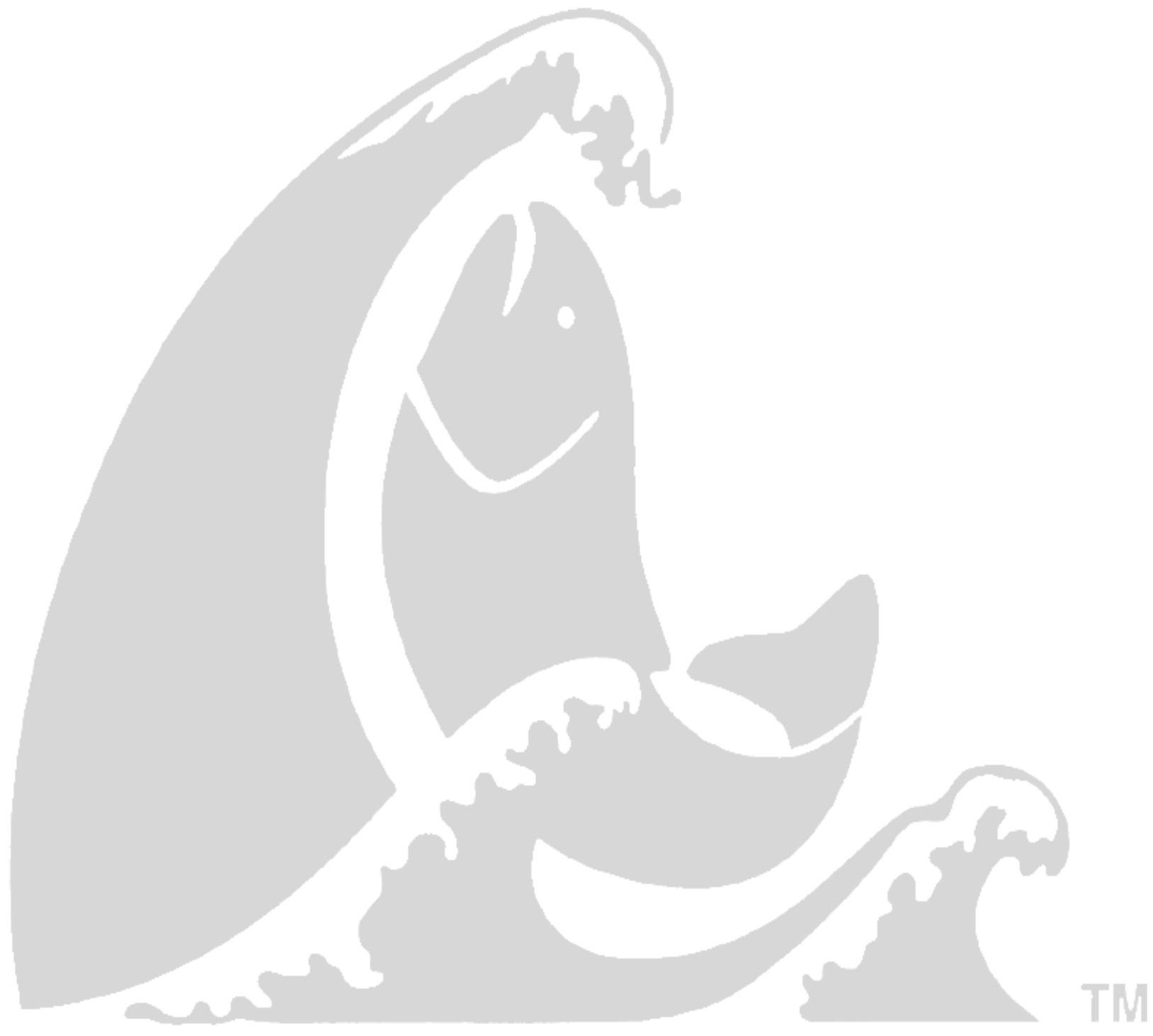
We wish to express our appreciation to the entire Department staff for their efforts and contributions to our annual report. Our appreciation is especially extended to the Finance section of the Department, who work diligently year-round to maintain accurate and timely financial records. This effort 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

# **Financial Section**



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## **Report of Independent Auditors**

Board of County Commissioners of  
Clackamas County, Oregon, as Governing Body of  
Water Environment Services  
Oregon City, Oregon

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

We have audited the accompanying financial statements of Water Environment Services (the Entity), a component unit of Clackamas County, Oregon, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Entity'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 opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Entity as of June 30, 2018, 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 12 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 an opinion on the financial statements that collectively comprise the Entity's basic financial statements. The budgetary comparison schedules and summary of net position by fund on pages 31 to 36 (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 opinion on the financial statements that collectively comprise the Entity'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 have 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 them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of the Entity'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 Entity'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 15, 2018, on our consideration of the Entity'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 15, 2018

**WATER ENVIRONMENT SERVICES**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2018**

As management of Water Environment Services ("WES"), we offer readers of our financial statements this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2018. All amounts, unless otherwise indicated, are expressed in thousands of dollars. This is the first year of reporting for WES, an ORS 190 organization created by a transfer of operations from both the Tri-City Service District (TCSD) and the Surface Water Management Agency of Clackamas County (SWMACC). Consequently, there are no historical comparisons offered.

**Financial Highlights**

- Assets of WES exceeded our liabilities at the close of the fiscal year by \$52,491. Of this amount, \$14,309 (unrestricted net position) may be used to meet our ongoing obligations of providing wholesale sanitary sewage treatment and retail surface water services.
- WES' total assets are \$53,065. Capital assets are \$35,211 and current pooled cash and investments are \$13,482.
- Operating revenues were \$9,389. Sanitary sewer user charges were \$8,542 and surface water user charges were \$186.
- Operating expenses equaled \$9,255. Contracted salaries and benefits were \$2,639, depreciation and amortization were \$2,572, and supplies were \$1,488.
- On July 1, 2017, the combined assets and liabilities of TCSD and SWMACC were transferred to WES. The \$51,200 of total net position received is presented in the Statement of Revenues, Expenses, and Changes in Net Position as Beginning Net Position and recognized and measured in the Statement of Net Position as of July 1, 2017. Additional details regarding this transfer of operations may be found in Note 6.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to WES' basic financial statements. These statements consist of the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement 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 WES' operations.

**WATER ENVIRONMENT SERVICES**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2018**

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

The Statement of Net Position presents information on all of WES' assets, liabilities, and net position. Over time, changes in assets, liabilities, and net position may serve as a useful indicator of whether WES' financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information related to increases and decreases in total net position. This statement is prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Statement of Cash Flows is an analysis of the change in WES' cash balance during the fiscal year. It is divided into three components: cash flows from operating activities, cash flows from capital and related financing activities, and cash flows from investing activities.

The basic financial statements contain information relating to WES' operations and can be found on pages 13 through 15 of this report. Sanitary sewer operations are provided at the Tri-City Water Resource Recovery Facility (TCWRRF) located in Oregon City, Oregon which serves the cities of Oregon City, West Linn, and Gladstone while surface water management services are provided to the unincorporated areas of Clackamas County which drain to the Lower Tualatin River, Oswego Lake Basins, and the City of Rivergrove.

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 16 through 29 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information concerning WES' budgetary comparisons, beginning on page 30.

**WATER ENVIRONMENT SERVICES**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2018**

**Financial Analysis**

WES was formed on November 16, 2016 with no activity prior to July 1, 2017. As such, the fiscal year 2017 reported no financial activity. In the condensed statements of net position below, the July 1, 2017 column presents the combined assets and liabilities received from TCSD and SWMACC at the beginning of FY 2018. The June 30, 2018 column presents balances as of the end of FY 2018.

**Net Position**

(In Thousands of Dollars)

	<u>June 30, 2018</u>	<u>July 1, 2017</u>
Current assets	\$ 14,883	\$ 13,868
Non-current assets - restricted	2,971	2,258
Capital assets, net	<u>35,211</u>	<u>35,521</u>
 Total assets	 <u>53,065</u>	 <u>51,647</u>
 Current liabilities	 <u>574</u>	 <u>447</u>
 Total liabilities	 <u>574</u>	 <u>447</u>
 Investment in capital assets	 35,211	 35,521
Restricted for capital projects	2,970	2,257
Restricted for debt service	1	1
Unrestricted	<u>14,309</u>	<u>13,421</u>
 Total net position, end of period	 <u>\$ 52,491</u>	 <u>\$ 51,200</u>

**WATER ENVIRONMENT SERVICES**  
 (A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2018**

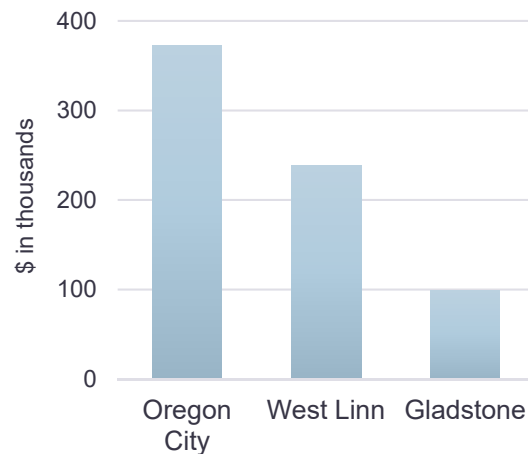
**Financial Analysis (Continued)**

The financial operations of WES are primarily related to the wholesale transmission and treatment of sanitary sewage and the provision of surface water management services.

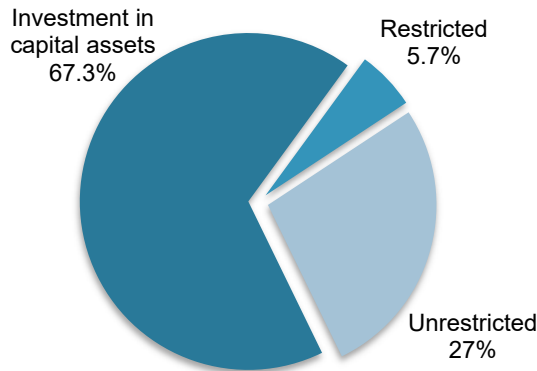
Current assets total \$14,883. Pooled cash and investments total \$13,482 and accounts receivable total \$1,272.

Total Net Position totals \$52,491. Investment in capital assets totals \$35,211 and the unrestricted portion totals \$14,309.

**Accounts Receivable**  
Major Customers of WES



**Net Position**

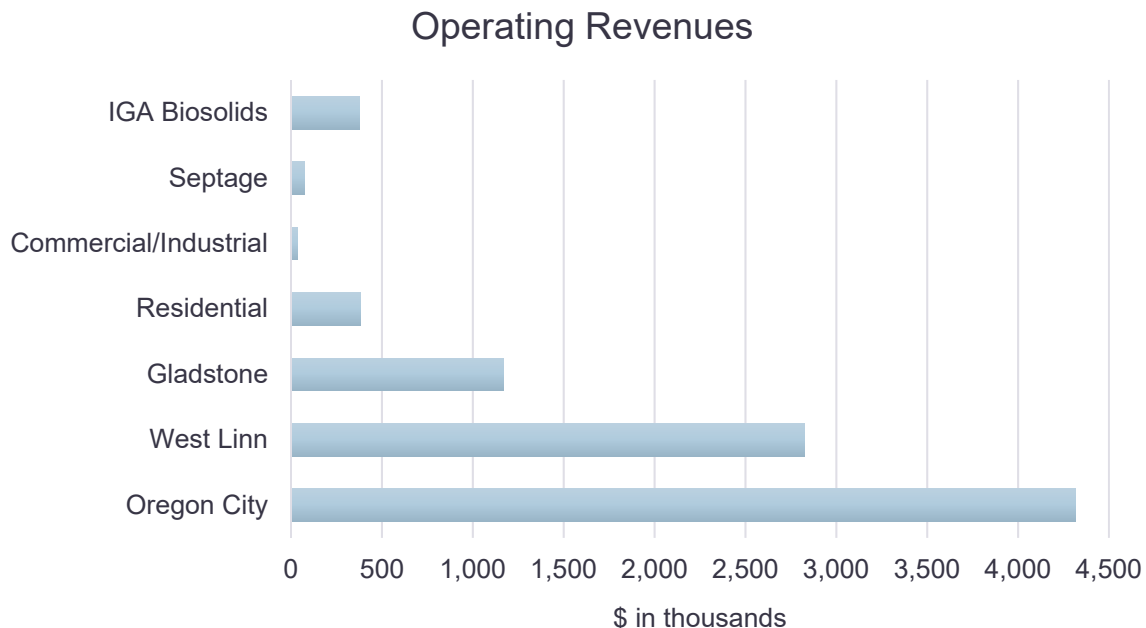


The majority of net position items are capital assets, represented by treatment facilities, land, conveyance systems, buildings, office equipment and vehicles. Restricted assets relate to the state loan and system development charges. Unrestricted assets account for 27% of net position. These items have no external restriction concerning their use or function.

**WATER ENVIRONMENT SERVICES**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2018**

**Financial Analysis (Continued)**

Total operating revenue was \$9,389. Sewerage charges were \$8,542, Intergovernmental revenue was \$375, other operating revenue was \$286, and surface water user charges were \$186. Intergovernmental revenue includes the payment by Clackamas County Service District No. 1 (CCSD No. 1) to WES for dewatering of biosolids at the Tri-Cities facility. In FY 2018, approximately 13.4 million gallons of liquid biosolids were treated. See Note 7 to the financial statements for further information.



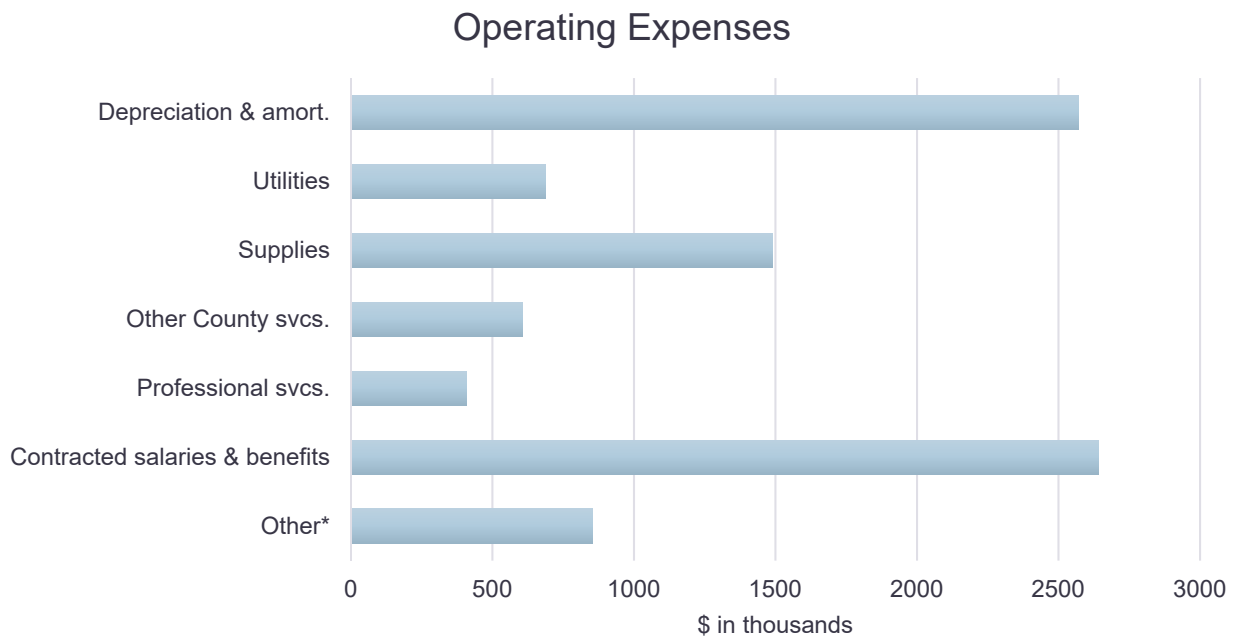
In the graph above, sewerage charges are reflected in the revenue from the cities, commercial/industrial customers, and a portion of residential customers; surface water charges are reflected as the remaining portion of residential customers; Intergovernmental revenue is represented by the IGA for Biosolids; and Septage is a part of other operating revenue.



**WATER ENVIRONMENT SERVICES**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2018**

**Financial Analysis (Continued)**

Total operating expenses in FY 2018 were \$9,255. Contracted salaries and benefits were \$2,639, depreciation and amortization were \$2,572, supplies were \$1,488, utilities were \$686, and other County services were \$607.



\*Other in the chart above includes laboratory services, vehicle materials and supplies, repairs and maintenance, insurance, and other minor expense items.

**WATER ENVIRONMENT SERVICES**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2018**

**Financial Analysis (Continued)**

A summary of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2018 is presented as follows:

<b><u>Changes in Net Position</u></b>		
(In Thousands of Dollars)		
	2018	2017
Sanitary Sewer user charges	\$ 8,542	\$ -
Surface Water user charges	186	-
Other operating revenues	661	-
Operating revenues	<u>9,389</u>	<u>-</u>
Contracted salaries and benefits	2,639	-
Material and services	6,616	-
Operating expenses	<u>9,255</u>	<u>-</u>
Operating income	<u>134</u>	<u>-</u>
Interest income	189	-
Loss on disposal of capital assets	<u>(5)</u>	<u>-</u>
Nonoperating revenue	<u>184</u>	<u>-</u>
Income before contributions	<u>318</u>	<u>-</u>
Contributions	<u>973</u>	<u>-</u>
Change in net position	1,291	-
Net position - beginning of year	<u>51,200</u>	<u>-</u>
Net position - end of year	<u><u>\$ 52,491</u></u>	<u><u>\$ -</u></u>

Total contributions were \$973. Connection charges were \$828 of that total.

The \$51,200 beginning net position represents the carrying values of the assets and liabilities transferred from TCSD and SWMACC. See Note 6 to the financial statements for further information.

**WATER ENVIRONMENT SERVICES**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2018**

**Capital Asset and Debt Analysis**

WES' total capital assets are \$35,211. Plant and equipment, net totaled \$29,330 and land, easements and construction in progress totaled \$5,880. Readers interested in more detailed information are referred to Note 5 of the Notes to Basic Financial Statements beginning on page 23.

**Rates and Charges**

In August of 2016, ECONorthwest created a population projection update for the portion of WES served by sanitary sewerage services. Growth projections within this portion for the next five years are projected to be 2.9% on an annual average.

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

The most recent budget adopted for FY 2019 established a sanitary sewer service rate of \$23.00 per EDU for the city of West Linn, an increase of 3.8%. A rate of \$24.40 per EDU was established for the city of Oregon City and a rate of \$24.15 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 FY 2019 budget includes a surface water rate increase of \$0.15 from \$4.10 per equivalent service unit (ESU) to \$4.25 per ESU. WES' 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 WES each add a charge to WES' base sanitary sewer service rate to provide for the costs associated with building and maintaining the collection systems operated by each. The cities of Oregon City, West Linn, and Gladstone added \$30.37, \$19.77, and \$9.60 per month per EDU, respectively, to the WES monthly sewer fee to provide for the costs associated with combined sewer separation and other collection system upgrades.

**WATER ENVIRONMENT SERVICES**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2018**

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

Growth in the sanitary sewer customer base in FY 2018 was 0.9% with a approximately 260 new connections in the three cities.

Fiscal year 2019 will show the transfer of operations from CCSD No. 1 into WES representing the completion of the formation of WES. Consequently, that budget is not comparable to the budget prepared for WES for FY 2018.

WES and CCSD No. 1 jointly own the former Blue Heron property in West Linn, Oregon. CCSD No. 1 and WES' 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 WES 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, an alternatives evaluation was continued. Beginning in 2019, WES will continue to review alternatives to determine if the site will remain unused or remediation efforts will commence. WES has determined that no obligating events have occurred as of June 30, 2018 therefore no liability has been recorded.

On July 1, 2018, CCSD No. 1's operations were fully transferred to WES. Additional information on this transfer is provided in Note 12, Subsequent Events.

**Financial Contact**

Water Environment Services' financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of WES' finances and to demonstrate accountability. If you have questions about the report or need additional financial information, please contact the Finance Manager at 150 Beaver Creek Road, Oregon City, Oregon 97045. WES' 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).

# **Basic Financial Statements**





WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
STATEMENT OF NET POSITION  
June 30, 2018

	<u>2018</u>
<b>ASSETS</b>	
Current assets:	
Pooled cash and investments	\$ 13,481,646
Accounts receivable	1,271,621
Interest receivable	30,945
Prepaid expenses	<u>99,116</u>
Total current assets	<u>14,883,328</u>
Noncurrent assets:	
Pooled cash and investments - restricted	2,971,058
Capital assets:	
Land, easements and construction in progress	5,880,326
Plant and equipment, net	<u>29,330,364</u>
Total capital assets	<u>35,210,690</u>
Total noncurrent assets	<u>38,181,748</u>
TOTAL ASSETS	<u>53,065,076</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	405,897
Due to Clackamas County	<u>168,511</u>
Total current liabilities	<u>574,408</u>
TOTAL LIABILITIES	<u>574,408</u>
<b>NET POSITION</b>	
Investment in capital assets	35,210,690
Restricted for capital projects	2,970,510
Restricted for debt service	548
Unrestricted	<u>14,308,920</u>
TOTAL NET POSITION	<u>\$ 52,490,668</u>

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

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
for the fiscal year ended June 30, 2018

	<u>2018</u>
Operating revenues:	
Sanitary Sewer user charges	\$ 8,542,389
Surface Water user charges	185,646
Intergovernmental revenue	375,145
Other operating revenues	<u>285,617</u>
 Total operating revenues	 <u>9,388,797</u>
Operating expenses:	
Contracted salaries and benefits	2,639,533
Professional services	408,852
Laboratory services	247,851
Other County services	606,616
Supplies	1,488,169
Vehicle expenses	181,037
Repairs and maintenance	88,552
Utilities	685,523
Insurance	163,480
Other expense	173,503
Depreciation and amortization	<u>2,571,997</u>
 Total operating expenses	 <u>9,255,113</u>
 Operating income	 <u>133,684</u>
Nonoperating revenue (expense)	
Interest income	189,261
Loss on disposal of capital assets	<u>(4,761)</u>
 Total nonoperating revenue	 <u>184,500</u>
 Income before contributions	 <u>318,184</u>
Contributions:	
Connection charges	827,629
Capital contributions	<u>145,208</u>
 Total contributions	 <u>972,837</u>
 Change in net position	 1,291,021
Net position - beginning of year	<u>51,199,647</u>
Net position - end of year	<u><u>\$ 52,490,668</u></u>

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



WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
STATEMENT OF CASH FLOWS  
for the fiscal year ended June 30, 2018

	2018
Cash flows from operating activities:	
Received from customers	\$ 9,087,877
Payments to suppliers for goods and services	(3,103,256)
Payments to related entities for services	(3,458,584)
Other operating revenue	141,485
Net cash from operating activities	<u>2,667,522</u>
Cash flows from capital and related financing activities:	
Capital contributed by customers/governments	145,208
Connection charges collected	1,234,564
Acquisition of capital assets, net of dispositions	<u>(2,213,239)</u>
Net cash from capital and related financing activities	<u>(833,467)</u>
Cash flows from investing activities:	
Interest received	<u>171,914</u>
Net increase in pooled cash and investments	2,005,969
Pooled cash and investments, beginning of year <sup>(1)</sup>	<u>14,446,735</u>
Pooled cash and investments, end of year <sup>(2)</sup>	<u><u>\$ 16,452,704</u></u>
Reconciliation of operating income to net cash from operating activities:	
Operating income	\$ 133,684
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	2,571,997
Changes in assets and liabilities:	
Increase in sewerage charges and other receivables	(147,611)
Decrease in prepaid expenses	35,747
Decrease in other liabilities	(11,823)
Increase in accounts payable and Due to Clackamas County	<u>85,528</u>
Total adjustments	<u>2,533,838</u>
Net cash from operating activities	<u><u>\$ 2,667,522</u></u>
<sup>(1)</sup> Pooled cash and investments at the beginning of the year reflect amounts contributed by TCSD and SWMACC.	
<sup>(2)</sup> Pooled cash and investments are reflected on the Statement of Net Position as follows:	
Current assets - unrestricted	\$ 13,481,646
Non-current assets - restricted	<u>2,971,058</u>
	<u><u>\$ 16,452,704</u></u>

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

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018

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**1. Summary of Significant Accounting Policies**

**Reporting Entity**

Water Environment Services (“WES”) is a municipal partnership created in November 2016 through an Oregon Revised Statute (ORS) 190 agreement (“the Agreement”) between Clackamas County Service District No. 1 (“CCSD No. 1”) and the Tri-City Service District (“TCSD”). The Agreement was amended in May of 2017 to also include the Surface Water Agency of Clackamas County (“SWMACC”). For fiscal year 2018, the operations of TCSD and SWMACC were transferred into WES. During 2019, the operations of CCSD No. 1 will be transferred in.

WES was formed in order to provide long-term certainty and stability for the sanitary sewer and surface water customers in the three partner service districts.

WES has no potential component units. Since Clackamas County, Oregon is financially accountable for and significantly influences the operations of WES and the Clackamas County Board of Commissioners also serves as WES’ Board, WES is included as a blended component unit in the Comprehensive Annual Financial Report of Clackamas County, Oregon for the year ended June 30, 2018.

Fiscal and accounting functions are provided by personnel of Clackamas County Water Environment Services Department, the County Treasurer and the County’s General Services Agency. WES contracts with the County for their personnel services.

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

**Basis of Accounting**

WES’ 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. WES maintains five 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 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 Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

WES 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 and surface water 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. Contributions represent capital assets contributed by governments and developers, and connection fees.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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**1. Summary of 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 WES' pooled cash and investments, held by the Clackamas County Treasurer, has been disclosed in the County's Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2018. For purposes of the Statement 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.

**Accounts Receivable**

Sanitary sewer and surface water user charges, included as accounts receivable in the Statement of Net Position are due from property owners within WES. 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 historical cost or at acquisition 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 WES as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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**1. Summary of 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:

Plant and buildings	10 - 50 years
Collection system	10 - 50 years
Equipment	5 - 20 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. WES periodically reevaluates the estimated useful lives of these assets.

**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: Investment in capital assets, Restricted for capital projects; Restricted for debt service; and Unrestricted net position. Investment in capital assets consists of all capital assets, net of accumulated depreciation 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 position, 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 \$2,970,510 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.

**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.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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

**Adoption of New GASB Pronouncements**

During the fiscal year ended June 30, 2018, the following new GASB pronouncements became effective:

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. 85, Omnibus 2017, Issued March 2017.

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

WES has applied all applicable GASB pronouncements in the financial statements.

WES has implemented the following GASB pronouncement early:

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, Issued June 2018.

**Future Adoption of GASB Pronouncements**

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2018:

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

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

GASB Statement No. 87, Leases, Issued June 2017.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, Issued April 2018.

GASB Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61, Issued August 2018.

WES will implement the new GASB pronouncements in the fiscal year no later than the required effective date. Management is currently evaluating the above listed new GASB pronouncements and has yet to determine the impact on WES' financial statements.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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**2. Stewardship, Compliance, and Accountability**

WES is required by state law to budget its operations on a fund basis. The budget is generally prepared on the accrual basis of accounting under which revenues are recognized at the time they are earned and expenses are recognized when they are incurred, regardless of the timing of the related cash flow. Differences exist between the basis of accounting used for financial reporting and the basis of budgeting. In particular, depreciation and amortization are recognized in the financial statements but are not budgeted expenditures.

The resolution authorizing appropriations for WES' 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.

No supplemental budgets or appropriation transfers were made during the year ended June 30, 2018. All annual appropriations lapse at fiscal year end.

**3. Pooled Cash and Investments**

Pooled cash and investments are comprised of the following:

	2018
Petty Cash	\$ 100
Pooled cash and investments	16,452,604
	<u>\$ 16,452,704</u>

Pooled cash and investments are held by the County Treasurer and represent WES' 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.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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

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:

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.

Reference may be made to the June 30, 2018 Comprehensive Annual Financial Reports of Clackamas County for the classifications of WES' pooled accounts maintained by the County Treasurer.

State statutes authorize WES 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, 2018 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.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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

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 WES' value in the pool shares.

**Custodial Credit Risk**

WES 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, WES' deposits may not be returned. WES' cash and investments are held by Clackamas County in a pool that also includes deposits of CCSD No. 1. 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. WES believes that the risk of County default is slight and outweighed by the advantages of participation in the County cash and investment pool.

WES 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**

WES 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.

WES 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+.

**4. Accounts Receivable**

Amounts are comprised of the following:

	2018
User charges	\$ 822,736
Connection charges from cities	104,884
Pump station charges	384
Intergovernmental agreement and miscellaneous receivables	343,617
	<u>\$ 1,271,621</u>



WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

**5. Capital Assets**

Changes in capital assets for the year ended June 30, 2018 were as follows:

	Balance July 1, 2017	Additions	Transfers	Deletions	Balance June 30, 2018
Capital assets not being depreciated:					
Land and easements	\$ 3,514,698	\$ -	\$ -	\$ -	\$ 3,514,698
Construction in progress	1,565,697	2,266,259	(1,461,502)	(4,826)	2,365,628
Total capital assets, not being depreciated	5,080,395	2,266,259	(1,461,502)	(4,826)	5,880,326
Capital assets being depreciated and amortized:					
Intangibles	1,040,218	-	-	-	1,040,218
Collection plant	20,731,945	-	61,045	-	20,792,990
Pumping plant	5,622,030	-	104,882	(59,234)	5,667,678
Treatment plant	58,202,886	-	617,443	(83,736)	58,736,593
General plant	7,990,599	-	678,132	(526,878)	8,141,853
Total capital assets being depreciated and amortized	93,587,678	-	1,461,502	(669,848)	94,379,332
Less accumulated depreciation and amortization for:					
Intangibles	(1,040,218)	-	-	-	(1,040,218)
Collection plant	(10,661,815)	(439,212)	-	-	(11,101,027)
Pumping plant	(3,641,245)	(196,672)	-	59,234	(3,778,683)
Treatment plant	(42,069,960)	(1,652,750)	-	83,736	(43,638,974)
General plant	(5,733,581)	(283,363)	-	526,878	(5,490,066)
Total accumulated depreciation and amortization	(63,146,819)	(2,571,997)	-	669,848	(65,048,968)
Total capital assets being depreciated and amortized, net	30,440,859	(2,571,997)	1,461,502	-	29,330,364
Total capital assets, net	\$ 35,521,254	\$ (305,738)	\$ -	\$ (4,826)	\$ 35,210,690

Depreciation expense for the year ended June 30, 2018 totaled \$2,571,997.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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**6. Transfer of Operations**

On November 3, 2016, TCSD and CCSD No. 1 entered into an ORS 190 Partnership Agreement (the "Agreement") which formed the municipal entity "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 service districts were included as blended component units in the Comprehensive Annual Financial Report (CAFR) of Clackamas County, Oregon for the year ended June 30, 2017. WES and CCSD No. 1 are included as blended component units in the CAFR of Clackamas County, Oregon for the year ended June 30, 2018.

In accordance with the Agreement, on July 1, 2017, TCSD and SWMACC transferred the assets and liabilities comprising all of their operations to WES. As a result of the transfer, WES recognized the following assets, liabilities and net position:

	<u><b>Carrying Values</b></u>
TRANSFERRED ASSETS (NET)	
Current assets	\$ 13,868,200
Capital assets	35,521,254
Other non-current assets	<u>2,257,943</u>
TOTAL ASSETS	<u>51,647,397</u>
 TRANSFERRED LIABILITIES	
Current liabilities	<u>447,750</u>
TOTAL LIABILITIES	<u>447,750</u>
 NET POSITION OF TRANSFERRED OPERATIONS	
Investment in capital assets	35,521,254
Restricted for capital projects	2,257,401
Restricted for debt service	542
Unrestricted	<u>13,420,450</u>
TOTAL NET POSITION	<u><u>\$ 51,199,647</u></u>

The net position transferred is presented as the balances of the combining entities in the Statement of Net Position as of the beginning of the initial reporting period.

Pursuant to the WES agreement, WES was assigned ownership and management of all of TCSD's and SWMACC's existing contracts effective July 1, 2017.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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**7. Related Party Transactions**

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

- Clackamas County
- Clackamas County Development Agency
- Clackamas County Enhanced Law Enforcement District
- Clackamas County Extension and 4-H Service District
- Clackamas County Service District No. 1
- Clackamas County Service District No. 5
- Housing Authority of Clackamas County
- Library District of Clackamas County
- North Clackamas Parks and Recreation District

Clackamas County employees, working on behalf of Water Environment Services, perform certain fiscal, accounting and sewerage operations for which WES was charged \$3,479,772 for fiscal year ended June 30, 2018. At June 30, 2018 related party balances amounted to \$168,511.

An intergovernmental agreement dated 2008 and amended on May 12, 2011 provides for CCSD No. 1 to use WES' treatment facilities at the TCWRRF in exchange for a share of the operations and maintenance expenses of the facility. Per the agreement, CCSD No. 1's annual cost share is based on the district's estimated use of WES' facilities, which is evaluated on an annual basis by management. In 2017-18, CCSD No. 1's cost-share amount was approximately \$1,051,000, or 25% of total plant operating and maintenance costs. WES and CCSD No. 1 are co-managed with the goal of maintaining stable costs for both entities.

An IGA dated January 6, 2011 provides for treatment of CCSD No. 1's biosolids at WES' TCWRRF facility. Per the terms of this IGA, Clackamas County Service District No. 1 paid WES \$375,145 in 2017-18 for biosolids treatment services.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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**8. Commitments**

WES has 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 WES.
- The Cities will bill and collect sewer user charges bimonthly according to the rate schedule provided by WES.
- Should WES 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 WES:

	<u>2018</u>
Sanitary Sewer user charges	\$ 8,308,940
Connection charges	818,973
Pump station maintenance charges	<u>384</u>
	<u>\$ 9,128,297</u>

WES is committed under contractual agreements for various multi-year contracts related to capital acquisition and service agreements. The total contract costs are approximately \$5,021,000. As of June 30, 2018, approximately \$2,007,000 of these contracts remain outstanding.

**9. Litigation**

WES 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 WES. In the opinion of management, the ultimate disposition of such proceedings is not expected to have a material adverse effect.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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**10. Risk Management**

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

An IGA between WES and Clackamas County clarifies that for workers' compensation and employment practice liability issues, WES participates in the County's risk management pool. All employees of WES 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**

An agreement with the State of Oregon Department of Environmental Quality (DEQ) entered into on June 2, 2000 requires WES to perform certain, specific pollution remediation measures on property owned by WES 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 WES 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 TCSD. 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 TCSD with protection from potential liabilities in accordance with applicable law. The Remedial Investigation Report and Human Health and Ecological Risk Assessments commissioned by the Department on behalf of CCSD No. 1 and TCSD were accepted by DEQ on June 18, 2014. In July 2016, CCSD No. 1 and TCSD continued an alternatives evaluation. CCSD No. 1 and WES will be reviewing the alternatives to determine if the site will remain unused or remediation efforts will commence. WES has determined that no obligating events have occurred as of June 30, 2018 therefore no liability has been recorded.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

---

**12. Subsequent Events**

On July 1, 2018, CCSD No. 1 transferred the assets and liabilities comprising all of its operations to WES.

The total net position acquired from CCSD No. 1 was \$155,565,171 and no consideration was given in return.

The amounts recognized as of the effective transfer date of July 1, 2018 were equal to the carrying values transferred, as follows:

<u>7/1/2018 Carrying Values Transferred</u>	
ASSETS	
Current assets	\$ 58,178,736
Capital assets	167,276,900
Other noncurrent assets	29,825,255
DEFERRED OUTFLOWS OF RESOURCES	<u>4,293,446</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>259,574,337</u>
LIABILITIES	
Current liabilities	8,212,840
Noncurrent liabilities	<u>95,796,326</u>
TOTAL LIABILITIES	<u>104,009,166</u>
NET POSITION	
Net investment in capital assets	67,751,066
Restricted for capital projects	24,785,561
Restricted for debt services	738,947
Unrestricted	<u>62,289,597</u>
TOTAL NET POSITION	<u>\$ 155,565,171</u>

Pursuant to the WES agreement, WES was assigned ownership and management of all of CCSD No. 1's existing contracts effective July 1, 2018.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

---

**12. Subsequent Events - Continued**

In November 2018, Water Environment Services entered into a Loan Agreement with the State of Oregon Department of Environmental Quality (DEQ) for a Clean Water State Revolving Loan in the amount of \$37 million at 2.14% interest for a 20 year term. The loan will be used to finance the Tri-City Solids Handling Improvement Project with disbursements of loan proceeds made by the DEQ following submission of eligible invoices by WES. Repayment, in semi-annual installments of principal and interest, will commence after the project is complete, with the first payment anticipated to be due August 1, 2022.

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# **Supplementary Information**





WATER ENVIRONMENT SERVICES  
(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 WES' activities 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

Sanitary Sewer Operating Fund

The Sanitary Sewer Operating Fund accounts for all operating and maintenance expenses for day-to-day sanitary sewer operations. The primary resources are sanitary sewer user charges.

Sanitary Sewer System Development Charge Fund

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

State Loan Debt Service Fund

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

Sanitary Sewer Construction Fund

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

Surface Water Operating Fund

The Surface Water Operating Fund accounts for all surface water operating and maintenance activities of WES. The primary resources are surface water user charges.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
SANITARY SEWER OPERATING FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
for the year ended June 30, 2018

	2018		
	Original And Final Budget	Actual	Variance with Final Budget
REVENUES:			
Sanitary Sewer user charges	\$ 8,686,200	\$ 8,542,389	\$ (143,811)
Interest on investments	32,300	55,940	23,640
Pump station operation charges	2,000	384	(1,616)
Intergovernmental revenue	350,000	375,145	25,145
Miscellaneous	269,900	277,171	7,271
Contribution from TCSD	-	4,164,847	4,164,847
Contribution from CCSD No. 1	667,162	-	(667,162)
Total revenues	10,007,562	13,415,876	3,408,314
EXPENDITURES:			
Materials and services	8,552,261	6,614,900	1,937,361
Contingency	1,425,000	-	1,425,000
Total expenditures	9,977,261	6,614,900	3,362,361
Revenues over (under) expenditures	30,301	6,800,976	6,770,675
OTHER FINANCING USES:			
Transfers to other funds:			
Sanitary Sewer Construction Fund	(2,000,000)	(2,000,000)	-
Total transferred to other funds	(2,000,000)	(2,000,000)	-
Net change in fund balance	(1,969,699)	4,800,976	6,770,675
Fund balance - beginning	3,232,329	-	(3,232,329)
Fund balance - ending	\$ 1,262,630	4,800,976	\$ 3,538,346
Adjustment to GAAP basis:			
Capital assets (net of accumulated depreciation)		35,147,399	
Interest receivable		7,880	
Net position - GAAP basis		\$ 39,956,255	

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
SANITARY SEWER SYSTEM DEVELOPMENT CHARGE FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
for the year ended June 30, 2018

	2018		
	Original And Final Budget	Actual	Variance with Final Budget
REVENUES:			
Connection charges	\$ 1,546,875	\$ 827,629	\$ (719,246)
Interest on investments	24,900	34,364	9,464
Contributions from TCSD	-	2,769,220	2,769,220
Contributions from CCSD No. 1	20,707,651	-	(20,707,651)
Total revenues	22,279,426	3,631,213	(18,648,213)
EXPENDITURES:			
Capital Outlay	2,232,000	555,818	1,676,182
Contingency	558,000	-	558,000
Total expenditures	2,790,000	555,818	2,234,182
Revenues over (under) expenditures	19,489,426	3,075,395	(16,414,031)
Net change in fund balance	19,489,426	3,075,395	(16,414,031)
Fund balance - beginning	2,492,367	-	(2,492,367)
Fund balance - ending	\$ 21,981,793	3,075,395	\$ (18,906,398)
Adjustment to GAAP basis:			
Interest receivable		6,645	
Net position - GAAP basis		\$ 3,082,040	

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
STATE LOAN DEBT SERVICE FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
for the year ended June 30, 2018

	2018		
	Original And Final Budget	Actual	Variance with Final Budget
REVENUES:			
Interest on investments	\$ 5	\$ 7	\$ 2
Contributions from TCSD	-	541	541
Contributions from CCSD No. 1	305,230	-	(305,230)
Total revenues	305,235	548	(304,687)
EXPENDITURES:			
Total expenditures	-	-	-
Revenues over (under) expenditures	305,235	548	(304,687)
Net change in fund balance	305,235	548	(304,687)
Fund balance - beginning	480	-	(480)
Fund balance - ending	<u>\$ 305,715</u>	548	<u>\$ (305,167)</u>
Adjustment to GAAP basis:			
Interest receivable		1	
Net position - GAAP basis		<u>\$ 549</u>	

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
SANITARY SEWER CONSTRUCTION FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
for the year ended June 30, 2018

	2018		
	Original And Final Budget	Actual	Variance with Final Budget
REVENUES:			
Interest on investments	\$ 75,600	\$ 75,705	\$ 105
Miscellaneous	-	145,208	145,208
Contributions from TCSD	-	8,167,753	8,167,753
Contributions from CCSD No. 1	25,974,169	-	(25,974,169)
Total revenues	26,049,769	8,388,666	(17,661,103)
EXPENDITURES:			
Capital Outlay	2,916,051	1,644,118	1,271,933
Contingency	729,013	-	729,013
Total expenditures	3,645,064	1,644,118	2,000,946
Revenues over (under) expenditures	22,404,705	6,744,548	(15,660,157)
OTHER FINANCING SOURCES:			
Transfer from other funds:			
Sanitary Sewer Operating Fund	2,000,000	2,000,000	-
Net change in fund balance	24,404,705	8,744,548	(15,660,157)
Fund balance - beginning	7,561,347	-	(7,561,347)
Fund balance - ending	\$ 31,966,052	8,744,548	\$ (23,221,504)
Adjustment to GAAP basis:			
Interest receivable		15,389	
Net position - GAAP basis		\$ 8,759,937	

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
SURFACE WATER OPERATING FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
for the year ended June 30, 2018

	2018		
	Original And Final Budget	Actual	Variance with Final Budget
REVENUES:			
Surface water user charges	\$ 184,700	\$ 185,646	\$ 946
Interest earnings	5,100	5,899	799
Miscellaneous income	15,000	8,127	(6,873)
Contributions from SWMACC	-	562,433	562,433
Contributions from CCSD No. 1	5,781,139	-	(5,781,139)
Total revenues	5,985,939	762,105	(5,223,834)
EXPENDITURES:			
Materials and services	351,033	134,538	216,495
Contingency	35,000	-	35,000
Total expenditures	386,033	134,538	251,495
Revenues over (under) expenditures	5,599,906	627,567	(4,972,339)
Net change in fund balance	5,599,906	627,567	(4,972,339)
Fund balance - beginning	513,714	-	(513,714)
Fund balance - ending	\$ 6,113,620	627,567	\$ (5,486,053)
Adjustment to GAAP basis:			
Capital assets (net of accumulated depreciation)		63,291	
Interest receivable		1,029	
Net position - GAAP basis		\$ 691,887	



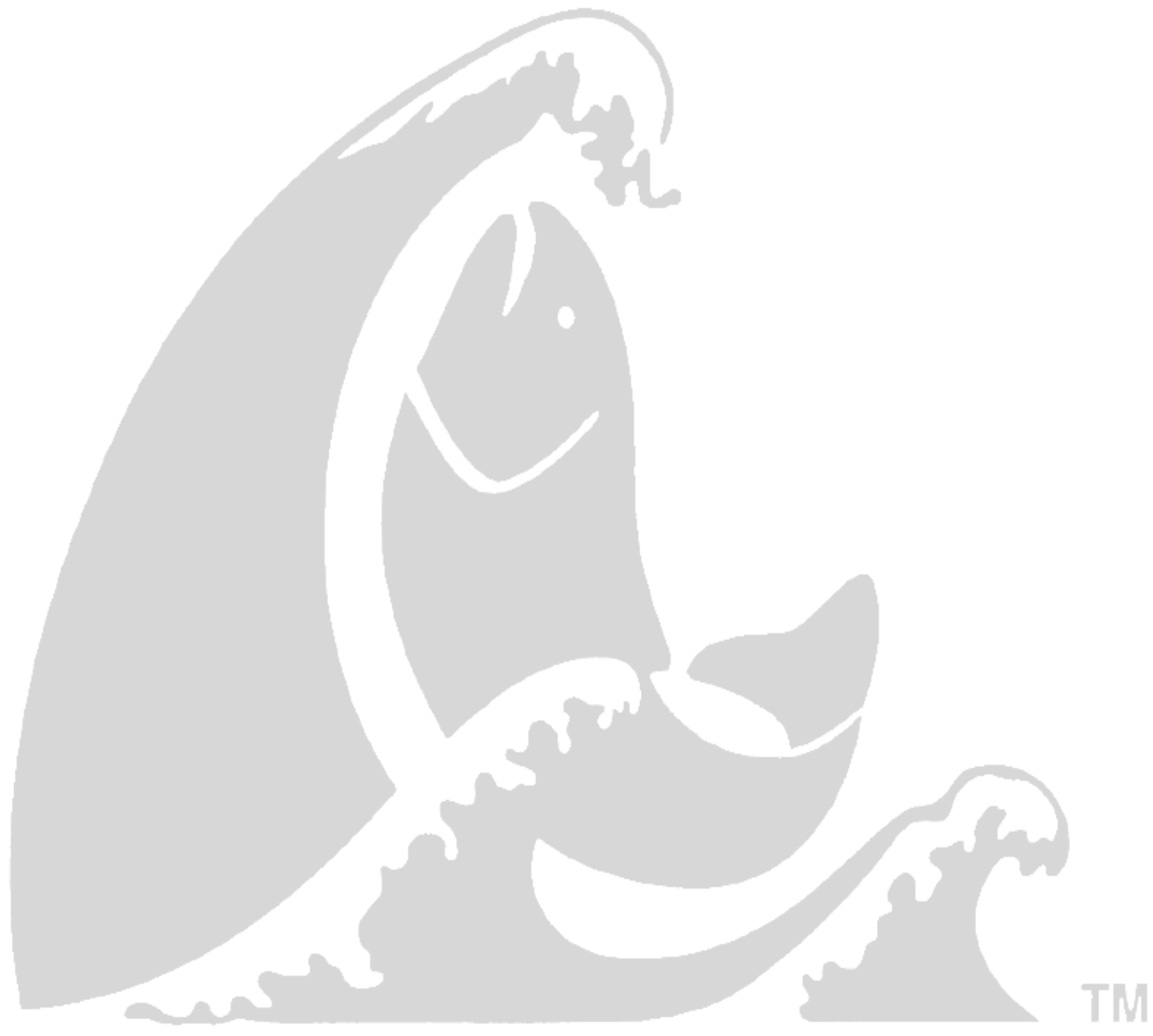
WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)  
SUMMARY OF NET POSITION  
BY FUND  
for the year ended June 30, 2018

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<u>Fund</u>	<u>Description</u>	<u>Net Position GAAP Basis</u>
631	Sanitary Sewer Operating Fund	\$ 39,956,255
632	Sanitary Sewer System Development Charge Fund	3,082,040
635	State Loan Debt Service Fund	549
639	Sanitary Sewer Construction Fund	8,759,937
641	Surface Water Operating Fund	<u>691,887</u>
	Total Net Position	<u><u>\$ 52,490,668</u></u>

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# Statistical Section



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## STATISTICAL SECTION

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

WES was formed on November 16, 2016 with no activity prior to July 1, 2017. As such, prior year data is not available for WES. Reference may be made to the prior fiscal year financial reports for WES' member district, the Tri-City Service District, for comparison with FY 2018 statistics.

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Net Position by Component  
Changes in Net Position

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User Fee Revenue by Customer Type  
Monthly Sewer and Surface Water Rates  
System Development Charges and Revenues  
Principal Ratepayers within WES

#### **Debt Capacity ..... 43**

Overlapping General Obligation Bonded Debt

These schedules present information to help the reader assess the affordability of WES' current levels of outstanding debt and WES' ability to issue additional debt in the future. WES 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.

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Population, Personal Income, and Unemployment Estimates  
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Full-Time Equivalent Employees by Function  
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Source: The information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year, unless otherwise noted.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

NET POSITION BY COMPONENT  
Last Ten Fiscal Years

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Fiscal Year Ended June 30,	Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
<u>2018</u>	<u>\$ 35,210,690</u>	<u>\$ 2,971,058</u>	<u>\$ 14,308,920</u>	<u>\$ 52,490,668</u>

Source: WES Comprehensive Annual Financial Report

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

CHANGES IN NET POSITION  
Last Ten Fiscal Years

	<u>2018</u>
<b>Operating revenues:</b>	
Sanitary Sewer user charges	\$ 8,542,389
Surface Water user charges	185,646
Intergovernmental revenues	375,145
Other operating revenues	<u>285,617</u>
Total operating revenues	<u>9,388,797</u>
<b>Operating expenses:</b>	
Contracted salaries and benefits	2,639,533
Professional services	408,852
Laboratory services	247,851
Other County services	606,616
Supplies	1,488,169
Vehicle expenses	181,037
Repairs and maintenance	88,552
Utilities	685,523
Insurance	163,480
Other expenses	173,503
Depreciation and amortization	<u>2,571,997</u>
Total operating expenses	<u>9,255,113</u>
Operating income	<u>133,684</u>
<b>Nonoperating revenue (expense):</b>	
Interest income	189,261
Loss on disposal of capital assets	<u>(4,761)</u>
Total nonoperating revenue	<u>184,500</u>
Income before contributions	<u>318,184</u>
<b>Contributions:</b>	
Connection charges	827,629
Capital contributions	<u>145,208</u>
Total contributions	<u>972,837</u>
<b>Change in net position</b>	<u><u>\$ 1,291,021</u></u>

Source: WES Comprehensive Annual Financial Report

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

USER FEE REVENUE BY CUSTOMER TYPE  
Last Ten Fiscal Years

	<u>2018</u>
<b>Sanitary Sewer User Charges</b>	
Cities <sup>1</sup>	\$ 8,308,939
Residential	196,864
Commercial	28,522
Other	<u>8,064</u>
<b>Total Sanitary Sewer User Charges</b>	<u>\$ 8,542,389</u>
 <b>Surface Water User Charges</b>	
Residential	\$ 148,106
Other	<u>37,540</u>
<b>Total Surface Water User Charges</b>	<u>\$ 185,646</u>

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

Source: WES Records



WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

MONTHLY SEWER AND SURFACE WATER RATES  
Last Ten Fiscal Years

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	<u>2018</u>
<b>Sewer Rates per EDU</b>	
Residential Customers	
Rate Zone 1	\$ 32.00
Wholesale Customers	
Rate Zone 1	\$ 22.15
<b>Surface Water Rates per ESU</b>	
Rate Zone 3	\$ 4.10

EDU - Equivalent Dwelling Unit  
ESU - Equivalent Service Unit

Footnote: Residential Sanitary Sewer EDU's equal one dwelling unit; commercial Sanitary Sewer EDU's equal 1 EDU per each 1,000 cu ft or fraction thereof per month of metered water consumption. One Surface Water ESU is equal to 2,500 square feet of impervious surface area with the minimum user charge set at 1 ESU.

Source: WES Records

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

SYSTEM DEVELOPMENT CHARGES AND REVENUES  
Last Ten Fiscal Years

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	<u>2018</u>
<b>Sanitary Sewer</b>	
Connection fee/EDU <sup>1</sup>	\$           3,125
Total Connection Revenue	\$           827,629

<sup>1</sup> 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.

Source: WES Records

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

PRINCIPAL RATEPAYERS WITHIN WES <sup>1</sup>  
Last Ten Fiscal Years

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	<u>2018</u>
<b>Type of Customer</b>	
Wholesale:	
City of Oregon City	\$ 4,313,782
City of West Linn	2,827,032
City of Gladstone	<u>1,168,125</u>
Total	<u>\$ 8,308,939</u>

<sup>1</sup> Cities of WES are Oregon City, West Linn, and Gladstone and account for more than ninety-five percent of total user charges.

Source: WES Records

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

OVERLAPPING GENERAL OBLIGATION BONDED DEBT  
June 30, 2018

Governmental Unit	Debt Outstanding	Percent Overlapping	Overlapping General Obligation Bonded Debt
<b>Debt repaid with property taxes</b>			
City of Oregon City	\$ 14,615,000	87.89 %	\$ 12,845,124
City of West Linn	14,065,000	99.98	14,062,187
Clackamas Community College	98,403,913	19.64	19,326,529
Clackamas County	138,185,000	14.51	20,050,644
Clackamas County School District #115 (Gladstone)	43,017,441	69.68	29,974,553
Clackamas County School District #12 (North Clackamas)	601,147,673	0.26	1,562,984
Clackamas County School District #3J (West Linn/Wilsonville)	220,711,862	45.67	100,799,107
Clackamas County School District #62 (Oregon City)	69,149,195	51.83	35,840,028
Clackamas County School District #7J (Lake Oswego)	242,549,604	0.34	824,669
Metro	205,735,000	3.43	7,056,711
Portland Community College	461,071,466	0.02	92,214
Tualatin Valley Fire & Rescue District	30,635,000	5.83	1,786,021
<b>Other Debt</b>			
City of Gladstone	1,323,000	71.32	943,564
City of Oregon City	17,820,748	87.89	15,662,655
Clackamas Community College	25,545,000	19.64	5,017,038
Clackamas County Education Service District	22,100,000	15.22	3,363,620
Clackamas County Rural Fire Protection District #1	16,020,000	12.96	2,076,192
Clackamas County School District #12 (North Clackamas)	830,004	0.26	2,158
Clackamas County School District #62 (Oregon City)	357,851	51.83	185,474
Metro	18,170,000	3.43	623,231
Port of Portland	60,339,399	3.17	1,912,759
Portland Community College	82,005,000	0.02	16,401
Tualatin Valley Fire & Rescue District	12,070,000	5.83	703,681
<b>Total overlapping debt</b>	<b>\$ 2,395,867,156</b>		<b>\$ 274,727,544</b>

Note:

(1) Overlapping governments are those that coincide, at least in part, with the geographic boundaries of WES. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of WES. 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 WES has no bonded debt outstanding.

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

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

DEMOGRAPHIC AND ECONOMIC STATISTICS  
Last Ten Fiscal Years

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Ended June 30,	Population Estimate	Personal Income <sup>1</sup>	Per Capita Personal Income <sup>1</sup>	Unemployment Rate (PMSA)
<u>2018</u>	<u>80,045</u>	<u>N/A</u>	<u>N/A</u>	<u>3.7 %</u>

N/A: Not available

<sup>1</sup> Figures are for calendar year; Personal Income and Per Capita Personal Income for 2018 are not available.

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

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

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

Employer	2018			2009		
	Employees	Rank	Percentage of Total <sup>2</sup>	Employees	Rank	Percentage of Total <sup>2</sup>
Intel Corp.	19,300	1	.02 %	15,500	1	.01 %
Providence Health & Services	17,543	2	.01	12,000	4	.01
Oregon Health & Sciences University	16,200	3	.01	12,600	3	.01
Legacy Health System	12,955	4	.01	8,251	6	.01
Nike Inc.	12,000	5	.01	7,000	7	.01
Fred Meyer	10,637	6	.01	14,684	2	.01
City of Portland	7,043	7	.01	5,587	10	.01
Portland Public Schools	6,780	8	.01			
Multnomah County	6,266	9	.00	5,640	9	.01
Beaverton School District	5,207	10	.00			
Kaiser Permanente Northwest				9,000	5	.01
Wells Fargo Bank				5,969	8	.01
Total	<u>113,931</u>		<u>0.09 %</u>	<u>96,231</u>		<u>0.10 %</u>

Sources:

<sup>1</sup> Statistics are the latest available data published in the Portland Business Journal *Book of Lists 2018* and *Book of Lists 2009*.  
The Business Journal *Book of Lists* ranks Portland Metropolitan Area employers.

<sup>2</sup> Total Portland Metropolitan Area employment used to calculate percentages is from the Oregon Employment Department.

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION  
Last Ten Fiscal Years

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	<u>2018</u>
<b>Function</b>	
Business Services	2.8
Capital Planning and Management	4.3
Environmental Services	2.5
Operations	<u>18.1</u>
Total	<u><u>27.7</u></u>

The Department Water Environment Services is responsible for the general management and operation of Clackamas County Service District No. 1 and WES. When possible, employees directly charge their time to the appropriate entity. Otherwise, their time is allocated. Hence, employee counts listed above are expressed in full time equivalents devoted to WES' operations.

Source: WES records

WATER ENVIRONMENT SERVICES  
(A Component Unit of Clackamas County, Oregon)

OPERATING AND CAPITAL INDICATORS  
Last Ten Fiscal Years

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2018

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**Sanitary Sewer**

Number of Treatment Plants	1
Number of Pump Stations	4
Miles of Pipe	19.39
Hydraulic treatment capacities (in million gallons/day)	11.90
System Demand - Current flows (in million gallons/day)	9.90
Estimated Sanitary Sewer EDUs	30,152
Number of New Connections	262

**Surface Water**

Catch Basins/Manholes	260
Miles of pipe	4.67
Estimated Surface Water ESUs	3,813

EDU - Equivalent Dwelling Unit  
ESU - Equivalent Service Unit

Footnote: Residential Sanitary Sewer EDU's equal one dwelling unit; commercial Sanitary Sewer EDU's equal 1 EDU per each 1,000 cu ft or fraction thereof per month of metered water consumption. One Surface Water ESU is equal to 2,500 square feet of impervious surface area with the minimum user charge set at 1 ESU.

Source: WES Records



# **Compliance Reports**



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## **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  
Water Environment Services  
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 Water Environment Services (the Entity), a component unit of Clackamas County, Oregon as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements, and have issued our report thereon dated November 15, 2018.

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

In planning and performing our audit of the financial statements, we considered Agency'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 the Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 15, 2018

## **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 Audit Standards**

Board of County Commissioners of  
Clackamas County, Oregon, as Governing Body of  
Water Environment Services  
Oregon City, Oregon

We have audited the basic financial statements of Water Environment Services (the Entity), a component unit of Clackamas County, Oregon, as of and for the year ended June 30, 2018, and have issued our report thereon dated November 15, 2018. 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 Entity'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:

- The use of approved depositories to secure the deposit of public funds.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal year 2018 and 2019.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

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 Entity is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Entity'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 Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 15, 2018



