

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal years ended June 30, 2020 and 2019

Water Environment Services

(A Component Unit of Clackamas County, Oregon)



CLACKAMAS
**WATER
ENVIRONMENT
SERVICES**

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal years ended June 30, 2020 and 2019

Prepared by:
WATER ENVIRONMENT SERVICES
Finance

Chris Storey
Assistant Director & Interim Finance Manager

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

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(A Component Unit of Clackamas County, Oregon)

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Introductory Section



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

COMMISSIONERS AS OF JUNE 30, 2020

<u>Name</u>	<u>Term Expires</u>
Jim Bernard, Chair Public Services Building	December 31, 2020
Sonya Fischer, Commissioner Public Services Building	December 31, 2022
Ken Humberston, Commissioner Public Services Building	December 31, 2020
Paul Savas, Commissioner Public Services Building	December 31, 2022
Martha Schrader, Commissioner Public Services Building	December 31, 2020

ADMINISTRATIVE OFFICES

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

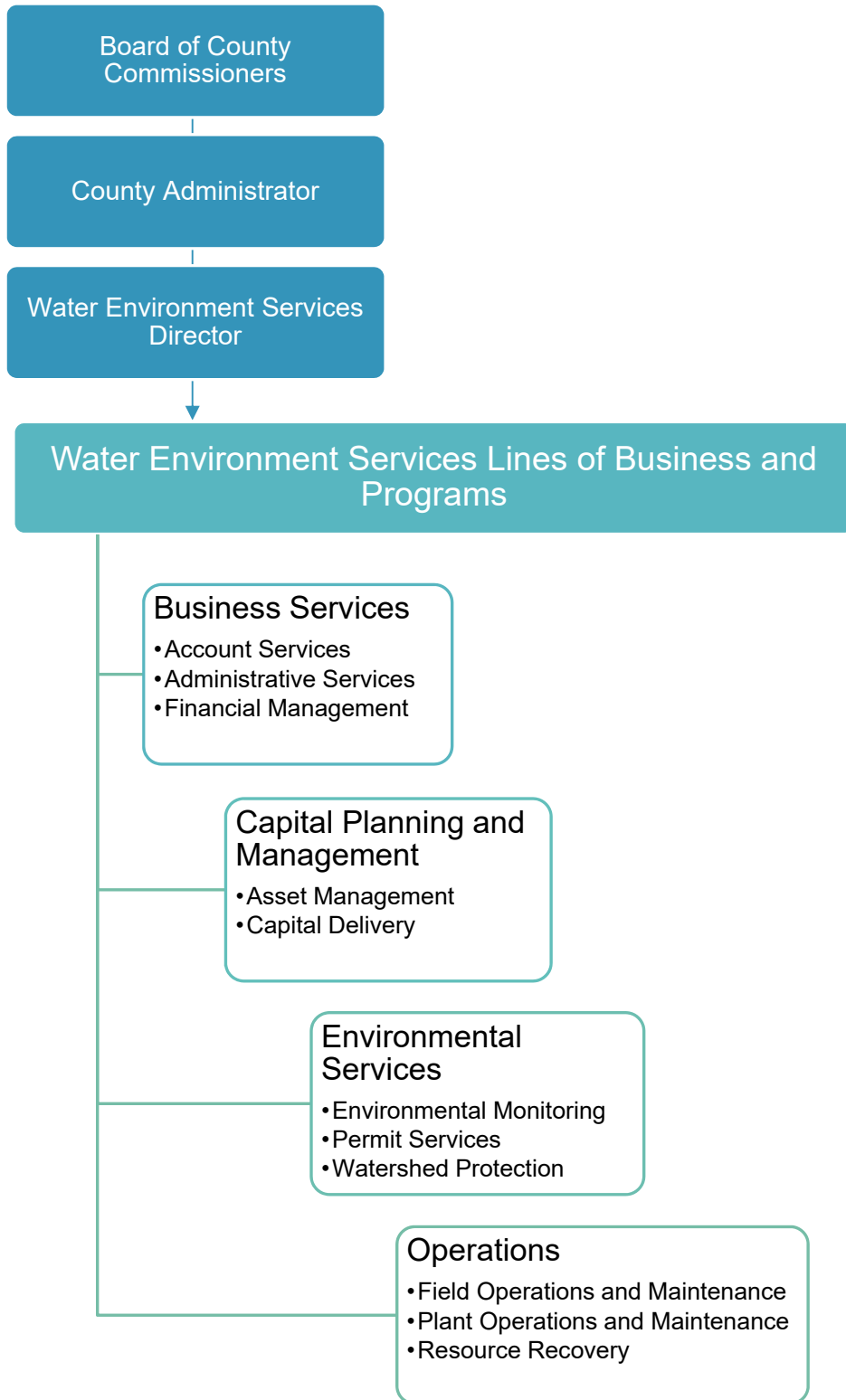
DISTRICT ADMINISTRATOR

Gary Schmidt
2051 Kaen Road
Oregon City, Oregon 97045

REGISTERED AGENT

Greg Geist
150 Beaver Creek Road
Oregon City, Oregon 97045

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
FY 2020





December 3, 2020

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

To Clackamas County Board of County Commissioners, Citizens and Customers:

The Comprehensive Annual Financial Report for Water Environment Services, a municipal partnership (WES) (also as a Component Unit of Clackamas County, Oregon) for the year ended June 30, 2020, is submitted herewith. This report was prepared by the Financial Management Program of 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 WES. 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, 2020, and for the year then ended.

WES' 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 (WES)

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) (sewer and surface water management) and the Tri-City Service District (TCSD) (sewer services). The Agreement was amended in May of 2017 to also include the Surface Water Management Agency of Clackamas County (SWMACC) (surface water services). Each of CCSD No. 1, SWMACC and TCSD are separate legal entities organized 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. These entities decided to jointly partner in the delivery of services to customers by forming WES. On July 1, 2017, the assets and operations of TCSD and SWMACC were transferred into WES, and CCSD No. 1 was transferred on July 1, 2018. WES functions as a single, combined entity formed by the three original districts. Prior to fiscal year (FY) 2018, each of these were separate legal entities and therefore audited financial statements were prepared for each. For fiscal year 2019 and moving forward, audited financial statement are being prepared for WES only.

As specified by ORS 451 and the Agreement, the governing body for WES is the Board of County Commissioners of Clackamas County, Oregon, and the County Administrator serves as the Administrator of the partnership. As a separate legal entity, the operations, assets and budgetary authority of WES are maintained separately from those of Clackamas County. However, under the criteria of the Governmental Accounting Standards Board, WES is considered a component unit of Clackamas County, Oregon.

The Agreement and related empowering bylaws establishes an advisory committee to advise WES 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.

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.

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

Prospects for the Future

It is anticipated that customer growth will be at a faster pace during the next several years. In August of 2016, ECONorthwest created an update of population projections for WES. Growth projections for the next five years are projected to be 2.9% on an annual average. Experience of WES to date has not matched projections, and budgeting and financial planning presume a lower growth rate. WES intends to update the study in the near future.

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. On September 18, 2020, WES sold 34 of the 39 acres of the Blue Heron property to a private developer. The portion of land sold included the lagoons, regarding which there was a contingent remedial obligation. WES no longer has any remediation obligation with respect to the property, which was assigned and assumed by the purchaser. Please refer to Note 14 on page 35 in the Notes to Basic Financial Statements for additional information.

WES has undertaken and anticipates continuing an aggressive capital construction program more significant than the individual districts have undertaken previously. The revised and adopted current Capital Improvement Plan for FY 20-25 anticipates approximately \$222 million in capital investment during that five year period. The ability of WES to achieve that level of investment depends on several factors outside its control, including growth rates, regional economic factors, impacts from the pandemic, adequate personnel, and construction expertise.

Independent Audit

The provisions of ORS Sections 297.405 through 297.555, known as "Oregon 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 Distinguished Budget Presentation Award

WES received the GFOA's Distinguished Budget Presentation Award for its annual budget for the 2019-20 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.

GFOA Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to WES for its Component Unit Financial Report for the year ended June 30, 2019. In order to be awarded a Certificate of Achievement, WES published an easily readable and efficiently organized Comprehensive Annual Financial Report that conforms to program standards. The report satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe we have met the GFOA's standards for financial reporting for the year ended June 30, 2020, and therefore, WES will again be submitting its current Comprehensive Annual Financial Report to the GFOA for consideration for a Certificate of Achievement. To that end, we will advise the Board of the results of the GFOA's review of our report.

Acknowledgments

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Greg L Geist".

Greg Geist
Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Water Environment Services
Oregon**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO

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Financial Section



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 (WES), a component unit of Clackamas County, Oregon, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the WES' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 WES as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, 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 Management's Discussion and Analysis on pages 4 through 13 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 WES' basic financial statements. The budgetary comparison schedules and summary of net position by fund on pages 37 to 46 (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 an opinion on the financial statements that collectively comprise WES' 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 it.

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2020 on our consideration of WES' 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 WES' 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 WES' internal control over financial reporting and compliance.

Other Reporting Required by Minimum Standards for Audits of Oregon Municipal Corporations

In accordance with the *Minimum Standards for Audits of Oregon Municipal Corporations*, we have issued our report dated December 3, 2020 on our consideration of WES' 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
December 3, 2020

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2020

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, 2020. All dollar amounts, unless otherwise indicated, are expressed in thousands.

This is the third year of reporting for WES, an ORS 190 partnership. WES was created by a transfer of operations from both the Tri-City Service District (TCSD) and the Surface Water Management Agency of Clackamas County (SWMACC) on July 1, 2017. Clackamas County Service District No. 1 (CCSD No. 1) was added on July 1, 2018. Consequently, the historical comparisons offered are not directly comparable.

Financial Highlights

- WES' Assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$228,925. Of this amount, \$63,648 (unrestricted net position) may be used to meet our ongoing obligations of providing retail and wholesale sanitary sewage treatment and retail surface water services.
- WES' total assets and deferred outflows of resources increased to \$347,501 in FY 2020 from \$325,460 in FY 2019. The change from FY 2019 included an increase in current pooled cash and investments of \$2,478, a decrease in contracts receivable of \$8,882, an increase in land, easements and construction in progress of \$30,025, an increase in pooled cash and investments (restricted) of \$8,258, a decrease in net plant and equipment of \$8,538, and a decrease in deferred charges on debt refunding of \$1,483.
- Total liabilities increased by \$6,962 in FY 2020. The increase was primarily the result of an increase in long term contracts, net of current portion of \$10,683. This was partially offset by a decrease in long term debt, net of current portion, payable from restricted assets of \$4,461.
- Total net position increased \$15,079 primarily due to a \$13,663 increase in net investment in capital assets as well as a \$8,687 increase in the portion restricted for capital projects. The overall increase was partially offset by a \$6,856 decrease in the unrestricted portion. Total net position increased \$161,355 in FY 2019 from FY 2018 primarily due to the transfer in of CCSD No. 1's net position of \$155,565.
- Total operating revenues increased by \$2,686 over FY 2019 and total operating expenses increased by \$1,655. The cost of contracted salaries and benefits increased by \$963, professional services increased by \$953, repairs and maintenance increased by \$381, utilities decreased by \$165 and depreciation and amortization decreased by \$51. These combined changes resulted in a decrease in the operating loss of \$1,031.
- In FY 2020 nonoperating expense decreased \$914. A decrease in interest expense of \$936 and an increase of \$174 in federal and state grants were partially offset by an increase in loss on disposal of capital assets and a decrease in interest income.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2020

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 Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows along with the Notes to Basic Financial Statements. Complementing these statements and notes is other Supplementary Information, which provides additional detail about WES' operations.

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

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

The basic financial statements contain information relating to WES' operations and can be found on pages 14 through 17 of this report. Sanitary sewer operations are provided at five water resource recovery facilities located throughout the state of Oregon: the Kellogg Water Resource Recovery Facility in Milwaukie, the Tri-City Water Resource Recovery Facility in Oregon City, the Hoodland Water Resource Recovery Facility in Brightwood, the Boring Water Resource Recovery Facility in Boring, and the Fischer's Forest Park Water Resource Recovery Facility in Oregon City. These sites serve the cities of Gladstone, Happy Valley, Milwaukie, Oregon City, and West Linn as well as the unincorporated portions of North Clackamas County, and the communities of Boring, the Hoodland corridor and Fischer's Forest Park near Redland. Surface water management services are provided to the unincorporated portions of North Clackamas County and the City of Happy Valley as well as those portions of unincorporated Clackamas County draining into the Tualatin River 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 18 through 36 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 37.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2020

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 June 30, 2018 column includes the combined assets and liabilities received from TCSD and SWMACC at the beginning of FY 2018. The June 30, 2019 column includes the combined assets and liabilities received from CCSD No. 1 at the beginning of FY 2019.

The following table offers a comparison of assets, liabilities, and net position at June 30, 2020, 2019, and 2018:

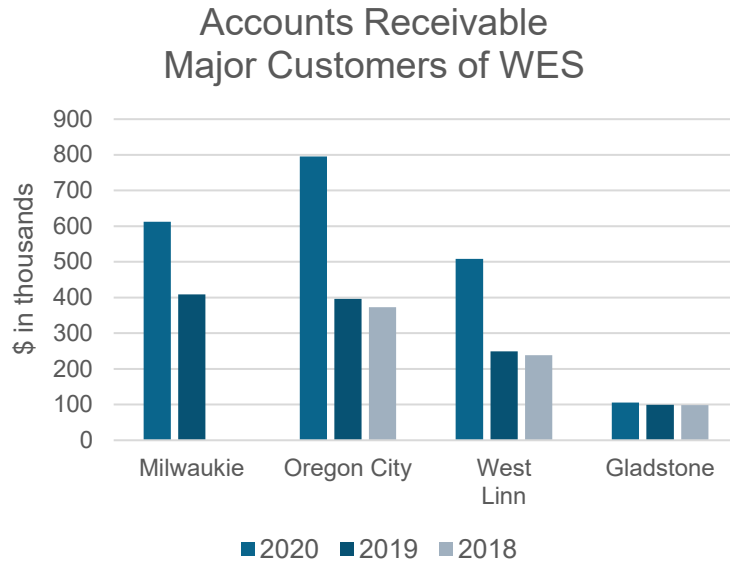
	Net Position		
	(In Thousands of Dollars)		
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Current assets	\$ 68,789	\$ 74,358	\$ 14,883
Other assets, net	2,758	3,441	-
Non current assets - restricted	42,798	34,540	2,971
Capital assets, net	<u>232,612</u>	<u>211,094</u>	<u>35,211</u>
Total assets	<u>346,957</u>	<u>323,433</u>	<u>53,065</u>
Total deferred outflows of resources	<u>544</u>	<u>2,027</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>347,501</u>	<u>325,460</u>	<u>53,065</u>
Current liabilities	12,173	11,422	574
Non current liabilities	<u>106,403</u>	<u>100,192</u>	<u>-</u>
Total liabilities	<u>118,576</u>	<u>111,614</u>	<u>574</u>
Net investment in capital assets	122,723	109,060	35,211
Restricted for capital projects	41,648	32,961	2,970
Restricted for debt service	906	1,321	1
Unrestricted	<u>63,648</u>	<u>70,504</u>	<u>14,309</u>
Total net position, end of period	<u>\$ 228,925</u>	<u>\$ 213,846</u>	<u>\$ 52,491</u>

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2020

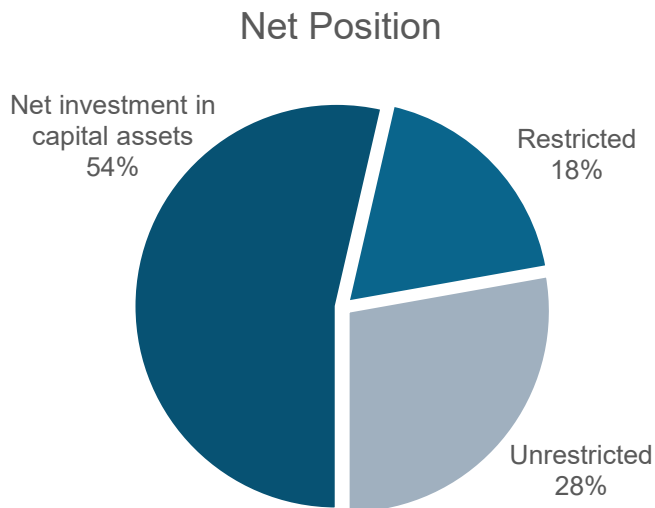
Financial Analysis (Continued)

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

Current assets decreased by \$5,569 primarily due to a decrease in contracts receivable of \$8,882 related to a disbursement of state loan proceeds. This decrease was partially offset by increases in pooled cash and investments of \$2,478 and an increase in accounts receivable of \$1,198, as shown in the chart here.



Net position increased by \$15,079. Pooled cash and investments increased by \$2,478 and restricted pooled cash and investments increased by \$8,258. Capital assets increased by \$21,518. Land, easements and construction in progress increased by \$30,025. Plant and equipment net decreased by \$8,538. Intangible assets net increased by \$31. Noncurrent unbonded assessments receivable decreased \$423. Long term debt, net of current portion, payable from restricted assets decreased by \$4,461.

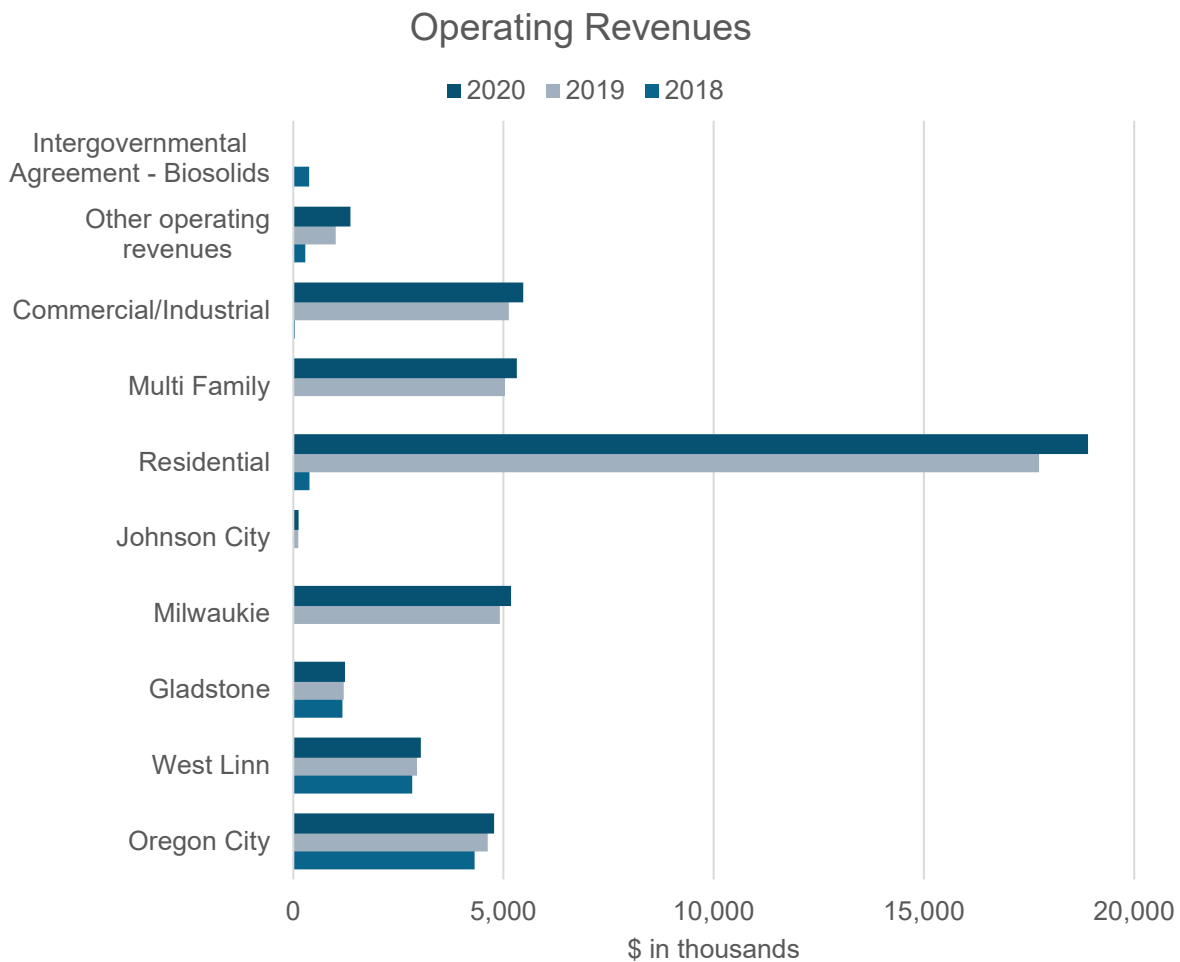


The majority of net position items are capital assets, represented by treatment facilities, land, conveyance systems, buildings, office equipment, and vehicles. Restricted assets relate to the state loans, revenue bonds, and system development charges. Unrestricted net position account for 28% of net 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, 2020

Financial Analysis (Continued)

Total operating revenues increased \$2,686 in 2020 to \$45,394. Revenue from sanitary sewer user charges increased \$2,079 or 5.7% and revenues from surface water user charges increased \$254 or 5.2%. Sanitary sewer and surface water monthly rate increases for FY 2020 ranged from 3.3% to 9.5%, depending on the type of service.

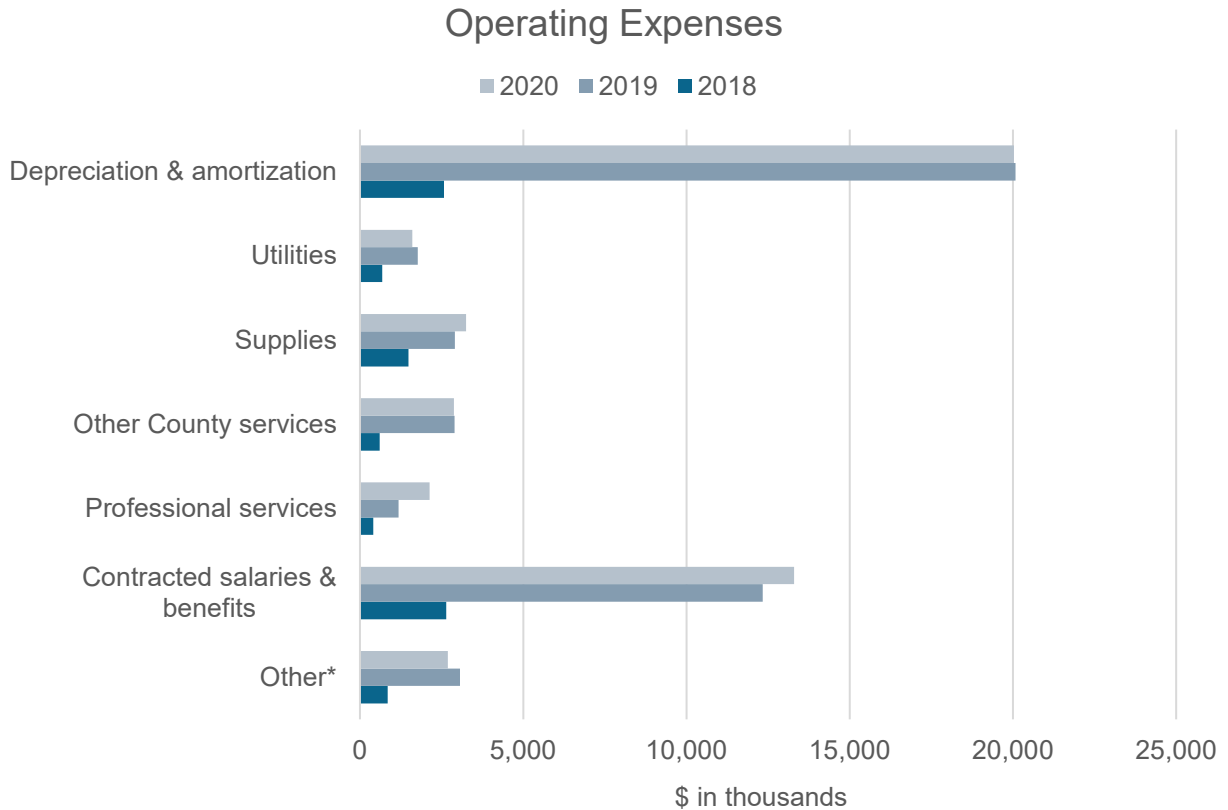


In the graph above, sewerage charges are reflected in the revenue from the cities, commercial/industrial customers, multi family, and a portion of residential customers. Surface water charges are reflected as the remaining portion of residential customers. FY 2018 revenues in many categories were part of CCSD No. 1’s separate CAFR at that time and are not shown here to avoid confusion.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2020

Financial Analysis (Continued)

Total operating expenses increased \$1,655 or 3.7% in FY 2020. Contracted salaries and benefits increased \$963 or 7.8%, due to reduced vacancies, an increase in staff, increased pension costs, and overtime related to pandemic response. Professional services increased by \$953 primarily due to increased engineering costs for planning efforts. Supplies increased \$344, including a substantial increase in safety supplies in response to the pandemic. Depreciation and amortization decreased \$51 in FY 2020 due to some assets being fully depreciated in the prior year. See Note 5 for further details.



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

In nonoperating revenue (expense) accounts, total nonoperating expense decreased by \$914. Interest expense decreased by \$936 and interest income decreased by \$43. Loss on disposal of capital assets increased by \$152.

Connection charges increased \$5,174. Capital contributions increased \$2,171.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2020

Financial Analysis (Continued)

The following table offers a comparison of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2020, 2019 and 2018:

Changes in Net Position

(In Thousands of Dollars)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Sanitary Sewer user charges	\$ 38,869	\$ 36,791	\$ 8,542
Surface Water user charges	5,164	4,910	186
Other operating revenues	<u>1,361</u>	<u>1,007</u>	<u>661</u>
Operating revenues	<u>45,394</u>	<u>42,708</u>	<u>9,389</u>
Contracted salaries and benefits	13,300	12,337	2,639
Material and services	<u>32,589</u>	<u>31,897</u>	<u>6,616</u>
Operating expenses	<u>45,889</u>	<u>44,234</u>	<u>9,255</u>
Operating income (loss)	<u>(495)</u>	<u>(1,526)</u>	<u>134</u>
Interest income	1,763	1,806	189
Interest expense	(3,960)	(4,896)	-
Other	<u>45</u>	<u>24</u>	<u>(5)</u>
Nonoperating revenue (expense)	<u>(2,152)</u>	<u>(3,066)</u>	<u>184</u>
Income (loss) before contributions	(2,647)	(4,592)	318
Contributions	17,726	10,382	973
Special Items			
Gain on transfer of operations	<u>-</u>	<u>155,565</u>	<u>-</u>
Change in net position	15,079	161,355	1,291
Net position - beginning of year	<u>213,846</u>	<u>52,491</u>	<u>51,200</u>
Net position - end of year	<u>\$ 228,925</u>	<u>\$ 213,846</u>	<u>\$ 52,491</u>

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2020

Capital Asset and Debt Analysis

WES' capital assets are \$232,612 as of June 30, 2020. The total increase in capital assets for the current fiscal year was \$21,518. Land, easements, and construction in progress increased \$30,025. Plant and equipment, net decreased \$8,538 due to the depreciation of existing assets. Intangible assets, net increased \$31. Readers interested in more detailed information are referred to Note 5 of the Notes to Basic Financial Statements beginning on page 26.

Noncurrent liabilities increased by \$6,211 to \$106,403 as shown in Notes 8 and 9. Long term debt decreased by \$4,461 and long term contracts increased by \$10,683. The key factor for this increase are loan proceeds related to a State of Oregon Department of Environmental Quality Revolving Fund Loan which is being used to fund the Tri-City Solids Handling project.

At June 30, 2020, WES had a portion of one outstanding debt issue of revenue obligations to finance capital improvements, two state revolving loans, and a refinancing issue of revenue obligations which refinanced the majority of three series of revenue obligations as well as one state revolving loan.

A portion of WES' revenue bond debt is payable from assessments levied and collected against the benefited property owners first and, if assessment collections and interest earnings are not sufficient, from operating revenues of WES. The balance of the revenue bond and revenue obligation debt and the state revolving loans are payable through operating revenues and connection fees. WES continues to maintain a AAA bond rating with Standard and Poor's Corporation; this rating was originally obtained in May 2018.

Readers interested in more detailed information are referred to Notes 8 and 9 of the Notes to Basic Financial Statements beginning on page 29.

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. Experience of WES to date has not matched projections, and budgeting and financial planning presume a lower growth rate. WES intends to update the study in the near future.

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 system development charges (SDCs). These charges are used for capital construction costs related to capacity expansion necessary for growth. SDCs can also assist in retiring existing revenue bond debt. In FY 2020, WES' SDC revenues were \$10,521.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2020

Rates and Charges (Continued)

The most recent budget adopted for FY 2021 established a retail sanitary sewer service rate of \$51.25 per equivalent dwelling unit (EDU) for all retail customers of WES. The retail sanitary sewer service fee for the City of Happy Valley is \$53.81, which includes the city's Right-of-Way (ROW) fee. The net increase for these customers was approximately 1.38%, after increases in the wholesale sanitary service rate and decreases in the collection for outstanding debt payments. The budget also established a wholesale sanitary service rate of \$24.95 for the cities of Johnson City, Milwaukie, and West Linn, an increase of 5.0%. A rate of \$26.20 per EDU was established for the city of Gladstone and a rate of \$26.60 per EDU was established for the city of Oregon City. These differentials in the rate are increases above the base rate charged to all wholesale customers required to raise additional funds to pay Gladstone and Oregon City their ROW fees. The FY 2021 budget includes a surface water rate increase of \$0.20 from \$4.45 per equivalent service unit (ESU) to \$4.65 per ESU in Rate Zone 3 and an increase of \$0.35 from \$7.30 per ESU to \$7.65 per ESU in Rate Zone 2. Please see WES' budget for a more detailed explanation of its ratemaking approach. 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 Gladstone, Oregon City, and West Linn added an estimated \$20.16, \$32.22, and \$21.80 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.

Economic Factors and Next Year's Budget

In early 2020, cases of novel coronavirus (COVID-19) began surfacing in the United States and on the West Coast. In response to local cases emerging here in the State of Oregon, the Governor issued an executive order declaring a state of emergency on March 8, 2020, and issued an executive order to stay home on March 23, 2020. Clackamas County entered Phase I of reopening on May 23, 2020. To date, the County has not met the requirements to move into Phase II. It is unknown at this time what the exact economic impact will be to WES in the coming fiscal year. Economic impacts arising from imposed reductions in economic activity is showing small but noticeable decreases in revenue. It is possible that the delinquent rate for billed rates could rise, which would result in an increase in receivables for WES. As part of its' response to the pandemic and associated impacts, WES did not undertake certification of delinquent accounts in FY 2020, but does anticipate resuming the practice in FY 2021.

Growth in the sanitary sewer customer base in FY 2020 was 1.6% with approximately 1,260 new connections.

As of June 30, 2020, WES owned the former Blue Heron property in West Linn, Oregon. WES' primary interest is in the existing industrial outfall permit. This permit was purchased in conjunction with the property. On September 18, 2020, WES sold 34 of the 39 acres comprising the former Blue Heron property to a private developer. The portion of land sold included the lagoons, regarding which there was a contingent remedial obligation. WES no longer has any remediation obligation with respect to the property, which was assigned and assumed by the purchaser.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2020

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 Beavercreek 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.

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Basic Financial Statements



WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET POSITION
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Pooled cash and investments	\$ 60,952,548	\$ 58,474,928
Unbonded assessments receivable, net	144,240	167,673
Accrued interest receivable on assessments, net	79,422	76,846
Contracts receivable	-	8,882,051
Accounts receivable	7,100,191	5,902,102
Interest receivable	349,137	487,648
Prepaid expenses	163,680	366,525
Total current assets	68,789,218	74,357,773
Noncurrent assets:		
Pooled cash and investments - restricted	42,798,017	34,539,956
Capital assets:		
Land, easements and construction in progress	75,353,074	45,328,274
Plant and equipment, net	157,184,028	165,722,242
Intangible assets, net	74,963	43,357
Connection charges receivable, noncurrent portion	163,395	199,344
Bonded assessments receivable, net	104,176	114,072
Contracts receivable, noncurrent portion	327,913	543,074
Unbonded assessments receivable, noncurrent portion	2,162,357	2,585,118
Total noncurrent assets	278,167,923	249,075,437
Deferred outflows of resources:		
Deferred charges on debt refunding	543,859	2,026,804
Total deferred outflows of resources	543,859	2,026,804
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	347,501,000	325,460,014
LIABILITIES		
Current liabilities:		
Accounts payable	6,095,439	5,576,443
Contract labor payable	534,459	410,378
Other liabilities	228,146	179,004
Unearned income	11,300	69,100
Due to Clackamas County	1,018,697	1,038,574
Accrued interest payable, payable from restricted assets	243,936	257,799
Loan payable, current portion	106,208	106,208
Current portion of long term debt, payable from restricted assets	3,935,000	3,785,000
Total current liabilities	12,173,185	11,422,506
Noncurrent liabilities:		
Long term unearned income, net of current portion	11,300	22,600
Long term debt, net of current portion, payable from restricted assets	85,498,491	89,959,647
Long term contracts, net of current portion	20,892,892	10,209,666
Total noncurrent liabilities	106,402,683	100,191,913
TOTAL LIABILITIES	118,575,868	111,614,419
NET POSITION		
Net investment in capital assets	122,723,333	109,060,156
Restricted for capital projects	41,647,857	32,961,203
Restricted for debt service	906,224	1,320,954
Unrestricted	63,647,718	70,503,282
Total net position	\$ 228,925,132	\$ 213,845,595

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the fiscal years ended June 30, 2020 and 2019

	2020	2019
Operating revenues:		
Sanitary Sewer user charges	\$ 38,869,238	\$ 36,790,480
Surface Water user charges	5,163,571	4,910,321
Other operating revenues	1,361,246	1,007,099
Total operating revenues	45,394,055	42,707,900
Operating expenses:		
Contracted salaries and benefits	13,300,131	12,337,188
Professional services	2,135,318	1,181,977
Laboratory services	65,272	31,724
Other County services	2,879,695	2,897,557
Supplies	3,248,542	2,904,075
Vehicle expenses	791,322	815,631
Repairs and maintenance	579,479	960,286
Utilities	1,602,852	1,767,914
Insurance	439,037	404,918
Other expense	815,143	849,742
Depreciation and amortization	20,031,956	20,082,869
Total operating expenses	45,888,747	44,233,881
Operating loss	(494,692)	(1,525,981)
Nonoperating revenues (expenses):		
Interest income	1,762,557	1,806,268
Interest expense	(3,960,237)	(4,896,003)
Federal and state grants	173,504	-
Dispatchable power	69,100	69,100
Loss on disposal of capital assets	(197,017)	(45,338)
Total nonoperating expenses	(2,152,093)	(3,065,973)
Loss before contributions and special item	(2,646,785)	(4,591,954)
Contributions:		
Connection charges	10,520,618	5,346,829
Capital contributions	7,205,704	5,034,881
Total contributions	17,726,322	10,381,710
Special Item:		
Gain on transfer of operations	-	155,565,171
Change in net position	15,079,537	161,354,927
Net position - beginning of year	213,845,595	52,490,668
Net position - end of year	\$ 228,925,132	\$ 213,845,595

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF CASH FLOWS
for the fiscal years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Received from customers	\$ 43,096,878	\$ 41,606,122
Payments to suppliers for goods and services	(8,917,063)	(8,969,251)
Payments to related entities for services	(16,120,007)	(15,057,790)
Other operating revenue	1,328,807	1,091,844
Net cash from operating activities	19,388,615	18,670,925
Cash flows from noncapital financing activities:		
Cash received in connection with CCSD No. 1 transfer of operations ⁽¹⁾	-	78,381,039
Net cash from noncapital financing activities	-	78,381,039
Cash flows from capital and related financing activities:		
Bond principal paid	(3,785,000)	(3,715,000)
Interest paid on bonds and contracts	(3,017,311)	(3,166,416)
Assessment and contract principal collected	492,039	409,231
Interest received on assessments and contracts	129,047	167,409
Connection charges collected	10,494,830	5,297,330
Capital contributed by customers/governments	315,667	82,089
Payments made on note payable	(106,208)	(106,208)
Acquisition of capital assets, net of dispositions	(14,928,536)	(21,039,909)
Net cash from capital and related financing activities	(10,405,472)	(22,071,474)
Cash flows from investing activities:		
Interest received	1,752,538	1,581,690
Net cash from investing activities	1,752,538	1,581,690
Net change in cash and cash equivalents	10,735,681	76,562,180
Pooled cash and investments, beginning of year	93,014,884	16,452,704
Pooled cash and investments, end of year ⁽²⁾	\$ 103,750,565	\$ 93,014,884

⁽¹⁾ Please see Note 6 for details.

⁽²⁾ Pooled cash and investments are reflected on the Statement of Net Position as follows:

Current assets - unrestricted	\$ 60,952,548	\$ 58,474,928
Noncurrent assets - restricted	42,798,017	34,539,956
	\$ 103,750,565	\$ 93,014,884

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF CASH FLOWS
for the fiscal years ended June 30, 2020 and 2019

	2020	2019
Reconciliation of operating income to net cash from operating activities:		
Operating loss	\$ (494,692)	\$ (1,525,981)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	20,031,956	20,082,869
Changes in assets and liabilities:		
Increase in sewerage charges and other receivables	(981,890)	(26,750)
Decrease (increase) in prepaid expenses	202,845	(73,004)
Increase in accounts payable and Due to Clackamas County	457,173	131,850
Increase in Contract labor payable	124,081	30,096
Increase in other liabilities	49,142	51,845
Total adjustments	19,883,307	20,196,906
Net cash from operating activities	\$ 19,388,615	\$ 18,670,925
Noncash capital activity		
Net capital assets from CCSD No. 1 transfer of operations ⁽¹⁾	\$ -	\$ 167,276,900
Contributions of capital assets from governments, developers and customers	6,890,037	4,952,792

⁽¹⁾ Please see Note 6 for details.

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, 2020 and 2019

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”). On July 1, 2017, the operations of TCSD and SWMACC were transferred into WES. On July 1, 2018, the operations of CCSD No. 1 were 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 (“County”) 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, 2020.

Fiscal and accounting functions are provided by personnel supporting WES, the County Treasurer and the County’s Finance Department. 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 eight 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 Statements of Net Position. The Statements of Revenues, Expenses and Changes in Net Position presents 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 revenues and expenses. 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, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

Pooled Cash and Investments

State statutes authorize WES to invest in general obligations of the U.S. Government and in its agencies, certain bonded obligations of Oregon municipalities, certain corporate indebtedness, bank repurchase agreements, bankers' acceptances, certain commercial paper and the State of Oregon Treasurer's Local Government Investment Pool ("LGIP"), among others. As of June 30, 2020, and for the year then ended, WES and the County were in compliance with the aforementioned State of Oregon statutes.

Pooled cash and investments represent WES' equity in pooled accounts maintained by the County Treasurer. Some 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 years ended June 30, 2020 and June 30, 2019.

Assessments Receivable

Assessments receivable represent the uncollected amounts levied against benefited property for the cost of local improvements. The assessments represent liens against benefited property and are generally payable over a period of twenty years at interest rates ranging from 5.0% to 12.09%. WES has determined the collectability of a portion of assessments receivable and accrued interest thereon as doubtful and has established an allowance.

The balance of the allowance at June 30, 2020 is \$578,039 of which \$204,095 is accrued interest. Assessments receivable arise from both bonded and unbonded sources. Bonded assessments were funded through revenue bond sales. Unbonded assessments were funded from WES' operations.

Accounts Receivable

Sanitary sewer and surface water user charges, included as accounts receivable in the Statements 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.

Restricted Assets and Related Liabilities

Assets, whose use is restricted to specific purposes by state statute or bond indenture, and related liabilities are segregated on the Statements of Net Position.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

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.

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 permits. Intangible assets 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.

Deferred Outflows of Resources

In addition to assets, the Statements of Net Position report a separate section for deferred outflows of resources, which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

Bonds

Bond premium costs are amortized over the life of the associated bond issuances.

Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and contributions of capital. Net position is classified in the following four components: Net investment in capital assets; Restricted for capital projects; Restricted for debt service; and Unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt (revenue bonds and other debt obligations) that is attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital projects and debt service consists of net 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 \$41,647,857 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.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

WES may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted and unrestricted fund balance in WES' fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is WES' policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance.

Use of Estimates

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

Reclassifications

Certain line items in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

Special Items

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Adoption of New GASB Pronouncements

During the fiscal year ended June 30, 2020, the following new GASB pronouncements became effective:

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, Issued May 2020.

Future Adoption of GASB Pronouncements

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2020:

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

Future Adoption of GASB Pronouncements (Continued)

GASB Statement No. 91, *Conduit Debt Obligations*, Issued May 2019.

GASB Statement No. 92, *Omnibus 2020*, Issued January 2020.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, Issued March 2020.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, Issued March 2020.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, Issued May 2020.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, Issued June 2020.

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.

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, these differences include: principal payments on long term debt are expended on a budgetary basis but are applied to the outstanding liability on a GAAP basis; capital outlay are treated as expenditures on a budgetary basis but are capitalized on a GAAP basis; debt proceeds are resources on a budgetary basis but are an outstanding liability on a GAAP basis; and depreciation is accrued for GAAP purposes but is not a budgeted expense as it does not require an expenditure of funds.

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 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.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

2. Stewardship, Compliance, and Accountability (Continued)

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

During the fiscal year, the Board approved an appropriation transfer of \$145,300 to cover unforeseen surface water capital expenses. Both the original adopted budget and the revised budget comparisons are presented in the accompanying budget schedules. All annual appropriations lapse at fiscal year end.

3. Pooled Cash and Investments

Pooled cash and investments are comprised of the following:

	2020	2019
Petty Cash	\$ 1,200	\$ 1,200
Pooled cash and investments	103,749,365	93,013,684
	\$ 103,750,565	\$ 93,014,884

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.

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).

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

3. Pooled Cash and Investments (Continued)

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, 2020 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, certain corporate indebtedness, bank repurchase agreements, bankers' acceptances, certain commercial paper and the State of Oregon Treasurer's Local Government Investment Pool ("LGIP"), among others. As of June 30, 2020 and 2019, and for the years then ended, WES and the County were in compliance with the aforementioned State of Oregon statutes.

The ORS require the public funds depository institution to be a participant in a multiple financial institution collateral pool administered by the Oregon State Treasurer or otherwise adequately collateralized as outlined in ORS 295. Reference should be made to the County's Comprehensive Annual Report for the fiscal years ended June 30, 2020 and June 30, 2019 for compliance with these statutes.

The Oregon State Treasurer administers the LGIP. The LGIP is an open-ended no-load diversified portfolio created under ORS 294 that is not registered with the US Securities and Exchange Commission as an investment company. The LGIP is 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. Investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

The LGIP is subject to regulatory oversight by the Oregon State Treasurer and is not required to be categorized by risk. Investments in the LGIP are stated at fair value, which approximates cost. Fair value in the LGIP is the same as the value of its pool shares. WES' LGIP funds are in WES' name and reference should be made to the County's Comprehensive Annual Report for the fiscal years ended June 30, 2020 and June 30, 2019 for disclosures of the risk inherent in the County's portfolio.

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3. Pooled Cash and Investments (Continued)

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. 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:

	2020	2019
User charges	\$ 5,666,412	\$ 4,730,481
Connection charges from cities	210,834	194,000
Current connection charges receivable, including interest of \$12,579 at June 30, 2020	44,164	35,209
Interest receivable on unbonded assessments	754,685	737,778
Intergovernmental agreement and miscellaneous receivables	424,096	204,634
	\$ 7,100,191	\$ 5,902,102

WATER ENVIRONMENT SERVICES
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JUNE 30, 2020 and 2019

5. Capital Assets

Changes in capital assets for the year ended June 30, 2020 were as follows:

	Balance June 30, 2019	Additions	Transfers	Deletions	Balance June 30, 2020
Capital assets not being depreciated:					
Land and easements	\$ 8,776,606	\$ -	\$ -	\$ -	\$ 8,776,606
Construction in progress	36,551,668	34,910,267	(4,640,491)	(244,976)	66,576,468
Total capital assets, not being depreciated	45,328,274	34,910,267	(4,640,491)	(244,976)	75,353,074
Capital assets being depreciated and amortized:					
Intangibles	3,705,466	-	43,200	-	3,748,666
Collection plant	188,480,368	6,890,037	2,186,202	-	197,556,607
Pumping plant	27,263,313	-	474,994	(78,486)	27,659,821
Treatment plant	200,567,916	-	508,827	(153,905)	200,922,838
General plant	21,722,032	-	1,427,268	(194,505)	22,954,795
Total capital assets being depreciated and amortized	441,739,095	6,890,037	4,640,491	(426,896)	452,842,727
Less accumulated depreciation and amortization for:					
Intangibles	(3,662,109)	(11,594)	-	-	(3,673,703)
Collection plant	(89,605,308)	(5,275,001)	-	-	(94,880,309)
Pumping plant	(18,716,408)	(1,559,426)	-	73,306	(20,202,528)
Treatment plant	(149,485,523)	(12,298,816)	-	153,905	(161,630,434)
General plant	(14,504,148)	(887,119)	-	194,505	(15,196,762)
Total accumulated depreciation and amortization	(275,973,496)	(20,031,956)	-	421,716	(295,583,736)
Total capital assets being depreciated and amortized, net	165,765,599	(13,141,919)	4,640,491	(5,180)	157,258,991
Total capital assets, net	\$ 211,093,873	\$ 21,768,348	\$ -	\$ (250,156)	\$ 232,612,065

Depreciation expense for the year ended June 30, 2020 totaled \$20,031,956.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

5. Capital Assets (Continued)

Changes in capital assets for the year ended June 30, 2019 were as follows:

	Balance July 1, 2018	Transfer from CCSD No. 1	Additions	Transfers	Deletions	Balance June 30, 2019
Capital assets not being depreciated:						
Land and easements	\$ 3,514,698	\$ 5,261,908	\$ -	\$ -	\$ -	\$ 8,776,606
Construction in progress	<u>2,365,628</u>	<u>12,603,954</u>	<u>23,800,460</u>	<u>(2,174,852)</u>	<u>(43,522)</u>	<u>36,551,668</u>
Total capital assets, not being depreciated	<u>5,880,326</u>	<u>17,865,862</u>	<u>23,800,460</u>	<u>(2,174,852)</u>	<u>(43,522)</u>	<u>45,328,274</u>
Capital assets being depreciated and amortized:						
Intangibles	1,040,218	2,665,248	-	-	-	3,705,466
Collection plant	20,792,990	161,735,857	4,952,792	998,729	-	188,480,368
Pumping plant	5,667,678	21,541,341	-	102,053	(47,759)	27,263,313
Treatment plant	58,736,593	141,274,366	-	569,372	(12,415)	200,567,916
General plant	<u>8,141,853</u>	<u>13,239,069</u>	<u>-</u>	<u>504,698</u>	<u>(163,588)</u>	<u>21,722,032</u>
Total capital assets being depreciated and amortized	<u>94,379,332</u>	<u>340,455,881</u>	<u>4,952,792</u>	<u>2,174,852</u>	<u>(223,762)</u>	<u>441,739,095</u>
Less accumulated depreciation and amortization for:						
Intangibles	(1,040,218)	(2,610,314)	(11,577)	-	-	(3,662,109)
Collection plant	(11,101,027)	(73,373,058)	(5,131,223)	-	-	(89,605,308)
Pumping plant	(3,778,683)	(13,275,998)	(1,709,487)	-	47,760	(18,716,408)
Treatment plant	(43,638,974)	(93,554,502)	(12,298,254)	-	6,207	(149,485,523)
General plant	<u>(5,490,066)</u>	<u>(8,230,971)</u>	<u>(932,328)</u>	<u>-</u>	<u>149,217</u>	<u>(14,504,148)</u>
Total accumulated depreciation and amortization	<u>(65,048,968)</u>	<u>(191,044,843)</u>	<u>(20,082,869)</u>	<u>-</u>	<u>203,184</u>	<u>(275,973,496)</u>
Total capital assets being depreciated and amortized, net	<u>29,330,364</u>	<u>149,411,038</u>	<u>(15,130,077)</u>	<u>2,174,852</u>	<u>(20,578)</u>	<u>165,765,599</u>
Total capital assets, net	<u>\$ 35,210,690</u>	<u>\$ 167,276,900</u>	<u>\$ 8,670,383</u>	<u>\$ -</u>	<u>\$ (64,100)</u>	<u>\$ 211,093,873</u>

Depreciation expense for the year ended June 30, 2019 totaled \$20,082,869.

WATER ENVIRONMENT SERVICES
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JUNE 30, 2020 and 2019

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 were included as blended component units in the CAFR of Clackamas County, Oregon for the year ended June 30, 2018. WES is included as a blended component unit in the CAFR of Clackamas County, Oregon for the years ended June 30, 2020 and June 30, 2019.

In accordance with the Agreement, on July 1, 2018, CCSD No. 1 transferred the assets and liabilities comprising all of its operations to WES. As a result of the transfer, WES recognized the following assets, liabilities and net position:

7/1/2018 Carrying Values of Assets and Liabilities Transferred	
ASSETS	
Current assets	\$ 58,178,736
Capital assets	167,276,900
Other noncurrent assets	29,825,255
DEFERRED OUTFLOWS OF RESOURCES	4,293,446
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	259,574,337
LIABILITIES	
Current liabilities	8,212,840
Long term debt, net of current portion	94,270,803
Other noncurrent liabilities	1,525,523
TOTAL LIABILITIES	104,009,166
NET POSITION	
Net investment in capital assets	67,751,066
Restricted for capital projects	24,785,561
Restricted for debt service	738,947
Unrestricted	62,289,597
TOTAL NET POSITION	\$ 155,565,171

The net position transferred is presented as a special item on the Statements of Revenues, Expenditures, and Changes in Net Position. 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, 2020 and 2019

7. Contracts Receivable

WES entered into a loan agreement with the State of Oregon Department of Environmental Quality (“DEQ”) for a Clean Water State Revolving Loan in November 2018. The loan is being used to finance construction of the Tri-City Solids Handling Improvement project with disbursements of the loan proceeds made by the DEQ following submission of eligible invoices by WES. At June 30, 2020, the balance in current contracts receivable is \$0 as all submitted disbursements requests had been received.

A sale agreement and note receivable dated May 17, 2012, with Clackamas County provided for the sale of the WES’ portion of the building located at 9101 SE Sunnybrook Boulevard. Per the terms of the agreement, interest will accrue on the principal at the rate of 4.325% per annum until the note’s maturity date of December 31, 2022. The balance of the note was \$229,199, plus accrued interest in the amount of \$210,863 in 2020.

8. Loans Payable

Amounts represent obligations for state revolving loans from the DEQ which were used for the construction of capital assets and are payable in annual and semi-annual installments.

In November of 2011, the American Recovery and Reinvestment Act Loan R06224 that was originally awarded in 2009 was amended. The amount of this loan is \$4,142,142 which financed construction of collector sewers in the North Clackamas Revitalization Area (“NCRA”). These funds are administered by the Oregon DEQ. Of the total amount, \$2,071,071 (50%) is in the form of a loan to be forgiven at the completion of the project. The general terms of the loan forgiveness require timely payments and solvency. Accordingly, \$2,000,000 was reported as capital contributions in 2010, and \$71,071 was reported as capital contributions in 2013. Loan payments are payable in semi-annual installments of principal and interest over 20 years, with a stated interest rate of 0%. Payments commenced in fiscal year 2013-14.

In November 2018, WES entered into a loan agreement with the State of Oregon via DEQ for a Clean Water State Revolving Loan. The total amount of the loan is \$37,000,000 at 2.14% interest to finance construction of the Tri-City Solids Handling Improvement project. As of June 30, 2020, WES has submitted and received \$19,671,485 in reimbursable expenses. Loan payments, in semi-annual installments of principal and interest over 20 years will commence following completion of the construction project, which is estimated to occur in 2022.

Similar to its’ bond covenants for outstanding revenue obligations (see below), WES has irrevocably pledged its net operating revenues towards payment of loans R06224 and R95030. If the loans are defaulted, by failure to make required principal or interest payments, or failing to conform to any covenants or conditions of this agreement, the State could declare all principal and interest and all other amounts due immediately. It could also set and collect utility rates and charges or direct the State Treasurer to withhold any amounts otherwise due to the borrower from the State of Oregon.

These loans are collateralized by future sewer revenues and contain certain financial covenants. As of June 30, 2020, Management believes WES was in compliance with these covenants.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

8. Loans Payable (Continued)

Changes in loans payable for the year ended June 30, 2020 are as follows:

	Interest Rates	Outstanding July 1, 2019	Increases	Decreases	Outstanding June 30, 2020	Current Portion
Revolving Loan R06224	0.00%	\$ 1,433,823	\$ -	\$ (106,208)	\$ 1,327,615	\$ 106,208
Revolving Loan R95030	2.14%	8,882,051	10,789,434	-	19,671,485	-
		<u>\$ 10,315,874</u>	<u>\$ 10,789,434</u>	<u>\$ (106,208)</u>	<u>\$ 20,999,100</u>	<u>\$ 106,208</u>

Changes in loans payable for the year ended June 30, 2019 are as follows:

	Interest Rates	Outstanding July 1, 2018	Increases	Decreases	Outstanding June 30, 2019	Current Portion
Revolving Loan R06224	0.00%	\$ 1,540,031	\$ -	\$ (106,208)	\$ 1,433,823	\$ 106,208
Revolving Loan R95030	2.14%	-	8,882,051	-	8,882,051	-
		<u>\$ 1,540,031</u>	<u>\$ 8,882,051</u>	<u>\$ (106,208)</u>	<u>\$ 10,315,874</u>	<u>\$ 106,208</u>

Future maturities of revolving loans are as follows:

Fiscal Year	Principal	Interest	Admin. Fees	Total
2021	\$ 106,208	\$ -	\$ 6,373	\$ 112,581
2022	106,208	-	5,842	112,050
2023	106,208	-	5,310	111,518
2024	106,208	-	4,779	110,987
2025	106,208	-	4,248	110,456
2026-2030	531,040	-	13,275	544,315
2031-2033	265,535	-	1,593	267,128
	<u>\$ 1,327,615</u>	<u>\$ -</u>	<u>\$ 41,420</u>	<u>\$ 1,369,035</u>

9. Long Term Debt

Changes in long term debt for the year ended June 30, 2020, are as follows:

	Interest Rates	Outstanding June 30, 2019	Increases	Decreases	Outstanding June 30, 2020	Current Portion
Revenue Obligations - 2009B	2.250% - 5.000%	\$ 1,470,000	\$ -	\$ (1,470,000)	\$ -	\$ -
Revenue Obligations - 2010	2.000% - 4.625%	1,660,000	-	(820,000)	840,000	840,000
Revenue Obligations - 2016	2.000% - 5.000%	81,670,000	-	(1,495,000)	80,175,000	3,095,000
		<u>\$ 84,800,000</u>	<u>\$ -</u>	<u>\$ (3,785,000)</u>	<u>\$ 81,015,000</u>	<u>\$ 3,935,000</u>

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

9. Long Term Debt (Continued)

Changes in long term debt for the year ended June 30, 2019, are as follows:

	Interest Rates	Outstanding June 30, 2018	Increases	Decreases	Outstanding June 30, 2019	Current Portion
Revenue Obligations - 2009A	2.000% - 4.700%	\$ 1,210,000	\$ -	\$ (1,210,000)	\$ -	\$ -
Revenue Obligations - 2009B	2.250% - 5.000%	2,885,000	-	(1,415,000)	1,470,000	1,470,000
Revenue Obligations - 2010	2.000% - 4.625%	2,465,000	-	(805,000)	1,660,000	820,000
Revenue Obligations - 2016	2.000% - 5.000%	81,955,000	-	(285,000)	81,670,000	1,495,000
		<u>\$ 88,515,000</u>	<u>\$ -</u>	<u>\$ (3,715,000)</u>	<u>\$ 84,800,000</u>	<u>\$ 3,785,000</u>

WES' revenue bond Master Declaration of Covenants, which provides terms and conditions for all current pari passu debt, contains a provision that in the event of default, outstanding amounts may become immediately due and/or bondholders may require rates to be increased and/or revenues directed to debt repayment and away from operating or capital expenses.

Current and future maturities at June 30 are summarized as follows:

	2020	2019
Current maturities - face value	\$ 3,935,000	\$ 3,785,000
	<u>\$ 3,935,000</u>	<u>\$ 3,785,000</u>
Future maturities - face value	\$ 77,080,000	\$ 81,015,000
Premium	8,418,491	8,944,647
	<u>\$ 85,498,491</u>	<u>\$ 89,959,647</u>

Revenue Obligations 2009A, 2009B, 2010, and 2016

Revenue obligations are payable from monthly sewer fees collected from customers connected to and benefited by the system. The original amount of the 2009A issuance was \$38,460,000, the 2009B issuance was \$44,365,000 and the 2010 issuance was \$23,710,000. These issuances were all used to finance capital improvements for the Phase 1 Capacity Expansion Project. The 2009A issuance was paid in full at June 30, 2019. The 2009B issuance was paid in full at June 30, 2020.

In August of 2016, revenue obligation series 2016 were issued in the amount of \$83,250,000 with an all-in interest rate of 2.2%. The proceeds were used to advance refund \$77,070,000 of outstanding 2009A, 2009B, and 2010 revenue obligations and to pay off outstanding Oregon DEQ Clean Water State Revolving Fund Loan R22403, which had interest rates ranging from 2.77% to 4.7%. The net proceeds of \$85,876,532 (including a \$10,523,115 premium and after payment of \$1,519,115 in underwriting fees and other issuance costs and the payoff of Loan R22403 in the amount of \$6,377,468) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds. As a result, portions of the 2009A, 2009B, and 2010 are considered defeased and the liability for those bonds has been removed from the statement of net position.

WATER ENVIRONMENT SERVICES
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9. Long Term Debt (Continued)

Revenue Obligations 2009A, 2009B, 2010, and 2016 (Continued)

The reacquisition price exceeded the net carrying amount of the old debt by \$8,826,731. This amount is being reported in the statements of net position as a deferred outflow of resources and amortized over the remaining life of the refunded debt in accordance with GASB 65. At June 30, 2020 the balance was \$543,859. The advance refunding of portions of the 2009A, 2009B, and 2010 bonds and refinancing of Loan R22403 was done to reduce total annual debt service payments by approximately \$625,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$9.7 million. The refinancing also released approximately \$7.6 million in reserves that was used for capital projects.

Maturities of 2010 bond principal at June 30, 2020 are as follows:

Fiscal Year	Principal	Interest
2021	\$ 840,000	\$ 16,800
	<u>\$ 840,000</u>	<u>\$ 16,800</u>

Maturities of 2016 bond principal at June 30, 2020 are as follows:

Fiscal Year	Principal	Interest
2021	\$ 3,095,000	\$ 2,816,256
2022	4,125,000	2,635,756
2023	4,345,000	2,424,006
2024	4,705,000	2,197,757
2025	4,945,000	1,956,506
2026-2030	28,390,000	6,137,782
2031-2035	29,130,000	1,979,197
2036	1,440,000	18,900
	<u>\$ 80,175,000</u>	<u>\$ 20,166,160</u>

Under the revenue obligation agreements, WES has agreed to covenants that it will charge user rates and fees in connection with the operation of the sewer system, which are adequate to cover annual debt service as required by the bond agreements and a minimum of an additional twenty percent (20%) collected. WES has also agreed to maintain restricted reserve accounts to provide for the payment of debt service in the event that pledged revenues are not sufficient to pay debt service when due. Management believes WES was in compliance with these covenants during the year ended June 30, 2020.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

9. Long Term Debt (Continued)

Revenue Obligations 2009A, 2009B, 2010, and 2016 (Continued)

At June 30, 2020, future pledged revenues are as follows:

Purpose	Revenue Stream	For the Year Ending June 30, of Final Payments	Future Pledged Revenue Debt Outstanding	For the Year Ended June 30, 2020 Revenue	For the Year Ended June 30, 2020 Debt (P&I) Payments
State Loan R06224	Sewer Assessments	2033	\$ 1,327,615	\$ 31,820,439 *	\$ 106,208
Revenue Obligations 2009B	Sewer Fees	2020	-	-	29,400
Revenue Obligations 2010	Sewer Fees	2021	840,000	-	890,000
Revenue Obligations 2016	Sewer Fees	2036	80,175,000	-	6,026,006
Total			<u>\$ 82,342,615</u>	<u>\$ 31,820,439</u>	<u>\$ 7,051,614</u>

* Same net revenue source pledged for multiple purposes.
Total Gross Revenues of \$57,677,230 less Total Operating
Expenses of \$25,856,791.

10. 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. 5
- Housing Authority of Clackamas County
- Library District of Clackamas County
- North Clackamas Parks and Recreation District

During fiscal years 2020 and 2019, fiscal and accounting functions, service of certain assets, and certain repairs and maintenance on plant and equipment were performed by personnel of various Clackamas County departments, including Department of Transportation and Development, North Clackamas Parks and Recreation District, and County Treasurer. Operating expenses in the Statements of Revenues, Expenses and Changes in Net Position for 2020 and 2019, charged by the above departments, totaled approximately \$16,179,826 and \$15,219,448 respectively.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

10. Related Party Transactions (Continued)

At June 30, related party balances consist of:

	Receivable		Payable	
	2020	2019	2020	2019
Clackamas County	\$ 646,527	\$ 679,280	\$ 1,018,697	\$ 1,038,574
Clackamas County - Contract labor payable	-	-	534,459	410,378
Subtotal	<u>646,527</u>	<u>679,280</u>	<u>1,553,156</u>	<u>1,448,952</u>
 Total	 <u>\$ 646,527</u>	 <u>\$ 679,280</u>	 <u>\$ 1,553,156</u>	 <u>\$ 1,448,952</u>

11. Commitments

WES has agreements with the cities of Gladstone, Oregon City, and West Linn. 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.

WES has agreements with the cities of Johnson City and Milwaukie to provide wholesale sanitary sewer service according to a 25 year wholesale service agreement codified in FY 2012-13.

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

	2020	2019
Sanitary Sewer user charges	\$ 14,346,181	\$ 13,801,878
Connection charges	1,877,704	831,310
Pump station maintenance charges	6,427	-
	<u>\$ 16,230,312</u>	<u>\$ 14,633,188</u>

During FY 2020, WES entered into a “Good Neighbor” agreement with the cities of Gladstone and Oregon City to fund neighborhood enhancement projects relating to the hosting of the Tri-City WRRF in their communities. Total costs related to this agreement for FY 2020 were \$250,000.

WATER ENVIRONMENT SERVICES
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JUNE 30, 2020 and 2019

11. Commitments (Continued)

WES has an agreement with the city of Happy Valley related to development review, planning, and surface water services.

WES is committed under contractual agreements for various multi-year contracts related to capital acquisition and service agreements. The total contract costs are approximately \$89.3 million. As of June 30, 2020, approximately \$24.8 million of these contracts remain outstanding.

12. 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.

13. Risk Management

WES is exposed to various risks of loss related to errors and omissions; automobile; damage to and destruction of assets; and bodily injury for which WES carries commercial insurance. 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. WES makes payments to the County's self-insurance internal service funds based on historical cost information, estimates of the amounts needed to pay prior year and current year claims, claim reserves, premiums and administrative costs of the program. During the past three fiscal years, no settled claims have exceeded insurance coverage levels, and there has been no significant reduction in coverage.

14. Pollution Remediation

An agreement with the 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.

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. The property was transferred to WES as part of the consolidation completed June 30, 2018. On September 18, 2020, WES sold 34 of the 39 acres of the Blue Heron property to a private developer. The portion of land sold included the lagoons, regarding which there was a contingent remedial obligation. WES no longer has any remediation obligation with respect to the property, which was assigned and assumed by the purchaser. WES has determined that no obligating events have occurred as of June 30, 2020 therefore no liability has been recorded.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

15. Contingencies

COVID-19

In January 2020, the United States reported its first confirmed case of the novel coronavirus (“COVID-19”). In response to local cases emerging here in the state of Oregon, the governor issued an executive order declaring a state of emergency on March 8, 2020, and issued an executive order to stay home on March 23, 2020. Clackamas County entered Phase I of reopening on May 23, 2020. To date, the County has not met the requirements to move into Phase II. It is unknown at this time what the exact economic impact will be to WES in the coming fiscal year. It is possible that the delinquent rate for billed charges could rise, which would result in an increase in the accounts receivable balance. As part of its’ response to the pandemic and associated impacts, WES did not undertake certification of delinquent accounts in FY 2020, but does anticipate resuming the practice in FY 2021.

16. Subsequent Events

On September 18, 2020, WES sold 34 of the 39 acres of the Blue Heron property to a private developer. The portion of land sold included the lagoons, regarding which there was a contingent remedial obligation. WES no longer has any remediation obligation with respect to the property, which was assigned and assumed by the purchaser.

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Supplementary Information



WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
DESCRIPTION OF BUDGETARY FUNDS

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 loans. The primary resources are transfers from the Sanitary Sewer Operating Fund.

Revenue Bond Debt Service Fund

The Revenue Bond Fund accounts for redemption of revenue bonds and interest thereon. The primary resource is user charges transferred from other funds.

Sanitary Sewer Construction Fund

The Sanitary Sewer Construction Fund accounts for non-SDC sanitary sewer capital expenditures. The primary 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.

Surface Water System Development Charge Fund

The Surface Water System Development Charge Fund accounts for surface water capital expenditures related to growth or increased capacity. The primary resources are connection charges.

Surface Water Construction Fund

The Surface Water Construction Fund accounts for non-SDC surface water capital expenditures. The primary resources are transfers from the Surface Water Operating Fund and interest earnings.

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, 2020
(with comparative totals for the year ended June 30, 2019)

	2020			2019 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Sanitary Sewer user charges	\$ 39,565,500	\$ 39,147,288	\$ (418,212)	\$ 37,049,343
Interest on investments	191,800	270,456	78,656	250,852
System development charges	5,000	59,462	54,462	33,793
Special connection charges	250,000	452,580	202,580	298,390
Interest non-bonded installment	10,000	24,364	14,364	34,751
Intergovernmental revenue	244,300	-	(244,300)	-
Miscellaneous	555,220	974,633	419,413	592,667
Contribution from CCSD No. 1	-	-	-	5,239,548
Total revenues	40,821,820	40,928,783	106,963	43,499,344
EXPENDITURES:				
Materials and services	24,723,633	21,871,415	2,852,218	20,624,590
Contingency	4,121,000	-	4,121,000	-
Total expenditures	28,844,633	21,871,415	6,973,218	20,624,590
Revenues over (under) expenditures	11,977,187	19,057,368	7,080,181	22,874,754
OTHER FINANCING USES:				
Transfers to other funds:				
Revenue Bond Fund	(5,895,406)	(5,895,406)	-	(6,873,981)
Sanitary Sewer Construction Fund	(14,500,000)	(14,500,000)	-	(10,000,000)
Total transferred to other funds	(20,395,406)	(20,395,406)	-	(16,873,981)
Net change in fund balance	(8,418,219)	(1,338,038)	7,080,181	6,000,773
Fund balance - beginning	9,591,333	10,801,749	1,210,416	4,800,976
Fund balance - ending	<u>\$ 1,173,114</u>	9,463,711	<u>\$ 8,290,597</u>	<u>\$ 10,801,749</u>
Adjustment to GAAP basis:				
Mortgage connection receivable		207,558		
Capital assets (net of accumulated depreciation)		208,300,310		
Prepaid expenses		38,616		
Bonds receivable		1,187,086		
Interest receivable		239,069		
Due to other entities		(352,160)		
Bond assessments receivable		505,222		
Contracts receivable		327,913		
Other long term liabilities		(11,300)		
Other		(11,300)		
Net position - GAAP basis		<u>\$ 219,894,725</u>		

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, 2020
(with comparative totals for the year ended June 30, 2019)

	2020			2019 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Connection charges	\$ 8,203,300	\$ 9,883,273	\$ 1,679,973	\$ 4,747,981
Interest on investments	607,100	652,450	45,350	455,759
Contributions from CCSD No. 1	-	-	-	22,917,866
Total revenues	8,810,400	10,535,723	1,725,323	28,121,606
EXPENDITURES:				
Capital Outlay	4,248,500	1,961,609	2,286,891	141,985
Contingency	1,062,125	-	1,062,125	-
Total expenditures	5,310,625	1,961,609	3,349,016	141,985
Revenues over (under) expenditures	3,499,775	8,574,114	5,074,339	27,979,621
Net change in fund balance	3,499,775	8,574,114	5,074,339	27,979,621
Fund balance - beginning	30,356,431	31,055,016	698,585	3,075,395
Fund balance - ending	<u>\$ 33,856,206</u>	39,629,130	<u>\$ 5,772,924</u>	<u>\$ 31,055,016</u>
Adjustment to GAAP basis:				
Interest receivable		33,457		
Net position - GAAP basis		<u>\$ 39,662,587</u>		

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, 2020
(with comparative totals for the year ended June 30, 2019)

	2020			
	Original And Final Budget	Actual	Variance with Final Budget	2019 Actual
REVENUES:				
Assessments collected	\$ 157,200	\$ 431,762	\$ 274,562	\$ 500,658
Interest on assessments	120,000	106,947	(13,053)	147,578
Interest on investments	23,400	26,934	3,534	17,265
Contributions from CCSD No. 1	-	-	-	727,185
Total revenues	300,600	565,643	265,043	1,392,686
EXPENDITURES:				
Principal	106,208	106,208	-	106,208
Interest	356,904	6,904	350,000	7,435
Total expenditures	463,112	113,112	350,000	113,643
Revenues over (under) expenditures	(162,512)	452,531	615,043	1,279,043
OTHER FINANCING USES:				
Transfers to other funds:				
Revenue Bond Fund	(900,000)	(900,000)	-	-
Net change in fund balance	(1,062,512)	(447,469)	615,043	1,279,043
Fund balance - beginning	1,169,190	1,279,591	110,401	548
Fund balance - ending	\$ 106,678	832,122	\$ 725,444	\$ 1,279,591
Adjustment to GAAP basis:				
Loans payable		(20,999,100)		
Bond assessments receivable		2,172,220		
Interest receivable		438,964		
Net position - GAAP basis		\$ (17,555,794)		

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
REVENUE BOND DEBT SERVICE FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

	2020			2019 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Interest collections	\$ 15,000	\$ 15,841	\$ 841	\$ 17,535
Interest on investments	7,500	5,612	(1,888)	4,722
Contributions from CCSD No. 1	-	-	-	353,750
Total revenues	<u>22,500</u>	<u>21,453</u>	<u>(1,047)</u>	<u>376,007</u>
EXPENDITURES:				
Principal	3,785,000	3,785,000	-	3,715,000
Interest	<u>3,010,406</u>	<u>3,010,406</u>	<u>-</u>	<u>3,158,981</u>
Total expenditures	<u>6,795,406</u>	<u>6,795,406</u>	<u>-</u>	<u>6,873,981</u>
Revenues over (under) expenditures	<u>(6,772,906)</u>	<u>(6,773,953)</u>	<u>(1,047)</u>	<u>(6,497,974)</u>
OTHER FINANCING SOURCES:				
Transfer from other funds:				
Sanitary Sewer Operating Fund	5,895,406	5,895,406	-	6,873,981
State Loan Debt Service Fund	<u>900,000</u>	<u>900,000</u>	<u>-</u>	<u>-</u>
Total transferred from other funds	<u>6,795,406</u>	<u>6,795,406</u>	<u>-</u>	<u>6,873,981</u>
Net change in fund balance	<u>22,500</u>	<u>21,453</u>	<u>(1,047)</u>	<u>376,007</u>
Fund balance - beginning	<u>375,150</u>	<u>376,007</u>	<u>857</u>	<u>-</u>
Fund balance - ending	<u>\$ 397,650</u>	397,460	<u>\$ (190)</u>	<u>\$ 376,007</u>
Adjustment to GAAP basis:				
Due from NCSA B&I		(1,187,086)		
Capitalized bond premium/discount		(8,418,491)		
Long term debt		(76,536,141)		
Happy Valley lien		104,176		
Bonds payable		(3,935,000)		
Interest payable		(243,936)		
Interest receivable		<u>270</u>		
Net position - GAAP basis		<u>\$ (89,818,748)</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, 2020
(with comparative totals for the year ended June 30, 2019)

	2020			
	Original And Final Budget	Actual	Variance with Final Budget	2019 Actual
REVENUES:				
Interest on investments	\$ 929,600	\$ 549,450	\$ (380,150)	\$ 643,401
Miscellaneous	-	315,668	315,668	86,455
SRF Capital Project Contribution	13,900,000	10,789,434	(3,110,566)	8,882,051
Contributions from CCSD No. 1	-	-	-	36,968,598
	14,829,600	11,654,552	(3,175,048)	46,580,505
EXPENDITURES:				
Capital Outlay	38,449,500	31,923,535	6,525,965	21,476,091
Contingency	9,612,375	-	9,612,375	-
	48,061,875	31,923,535	16,138,340	21,476,091
Revenues over (under) expenditures	(33,232,275)	(20,268,983)	12,963,292	25,104,414
OTHER FINANCING SOURCES:				
Transfer from other funds:				
Sanitary Sewer Operating Fund	14,500,000	14,500,000	-	10,000,000
	(18,732,275)	(5,768,983)	12,963,292	35,104,414
Net change in fund balance				
Fund balance - beginning	46,479,255	43,848,962	(2,630,293)	8,744,548
Fund balance - ending	\$ 27,746,980	38,079,979	\$ 10,332,999	\$ 43,848,962
Adjustment to GAAP basis:				
Interest receivable		36,341		
Net position - GAAP basis		\$ 38,116,320		

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, 2020
(with comparative totals for the year ended June 30, 2019)

	2020			2019 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Surface water user charges	\$ 5,231,700	\$ 5,163,571	\$ (68,129)	\$ 4,910,321
Interest on investments	186,100	189,966	3,866	160,304
Miscellaneous income	255,000	519,769	264,769	207,457
Contributions from CCSD No. 1	-	-	-	8,675,340
Total revenues	5,672,800	5,873,306	200,506	13,953,422
EXPENDITURES:				
Materials and services	5,435,236	4,244,759	1,190,477	3,711,515
Contingency	906,000	-	906,000	-
Total expenditures	6,341,236	4,244,759	2,096,477	3,711,515
Revenues over (under) expenditures	(668,436)	1,628,547	2,296,983	10,241,907
OTHER FINANCING USES:				
Transfers to other funds:				
Surface Water Construction Fund	(3,000,000)	(3,000,000)	-	(1,000,000)
Net change in fund balance	(3,668,436)	(1,371,453)	2,296,983	9,241,907
Fund balance - beginning	9,305,425	9,869,474	564,049	627,567
Fund balance - ending	<u>\$ 5,636,989</u>	8,498,021	<u>\$ 2,861,032</u>	<u>\$ 9,869,474</u>
Adjustment to GAAP basis:				
Due from Sanitary Sewer Operating Fund		124,015		
Capital assets (net of accumulated depreciation)		24,311,755		
Interest receivable		6,942		
Net position - GAAP basis		<u>\$ 32,940,733</u>		

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
SURFACE WATER SYSTEM DEVELOPMENT CHARGE FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

	2020			
	Original And Final Budget	Actual	Variance with Final Budget	2019 Actual
REVENUES:				
System development charges	\$ 116,100	\$ 161,094	\$ 44,994	\$ 140,543
Interest on investments	38,500	39,714	1,214	31,939
Contributions from CCSD No. 1	-	-	-	1,912,064
Total revenues	154,600	200,808	46,208	2,084,546
EXPENDITURES:				
Capital Outlay	50,000	-	50,000	-
Contingency	12,500	-	12,500	-
Total expenditures	62,500	-	62,500	-
Revenues over (under) expenditures	92,100	200,808	108,708	2,084,546
Net change in fund balance	92,100	200,808	108,708	2,084,546
Fund balance - beginning	1,923,464	2,084,546	161,082	-
Fund balance - ending	\$ 2,015,564	2,285,354	\$ 269,790	\$ 2,084,546
Adjustment to GAAP basis:				
Interest receivable		1,941		
Net position - GAAP basis		\$ 2,287,295		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

	2020				2019 Actual
	Original Budget	Final Budget	Actual	Variance with Final Budget	
REVENUES:					
Capital project participation	\$ 285,168	\$ 285,168	\$ -	\$ (285,168)	\$ -
Interest on investments	21,300	21,300	17,955	(3,345)	17,446
Miscellaneous	-	-	15,910	15,910	13,534
Contributions from CCSD No. 1	-	-	-	-	1,991,876
Total revenues	<u>306,468</u>	<u>306,468</u>	<u>33,865</u>	<u>(272,603)</u>	<u>2,022,856</u>
EXPENDITURES:					
Capital outlay	775,000	920,300	716,375	203,925	1,945,225
Contingency	<u>193,750</u>	<u>48,450</u>	-	<u>48,450</u>	-
Total expenditures	<u>968,750</u>	<u>968,750</u>	<u>716,375</u>	<u>252,375</u>	<u>1,945,225</u>
Revenues over (under) expenditures	<u>(662,282)</u>	<u>(662,282)</u>	<u>(682,510)</u>	<u>(20,228)</u>	<u>77,631</u>
OTHER FINANCING SOURCES:					
Transfer from other funds:					
Surface Water Operating Fund	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>	<u>-</u>	<u>1,000,000</u>
Net change in fund balance	<u>2,337,718</u>	<u>2,337,718</u>	<u>2,317,490</u>	<u>(20,228)</u>	<u>1,077,631</u>
Fund balance - beginning	<u>1,066,180</u>	<u>1,066,180</u>	<u>1,077,631</u>	<u>11,451</u>	<u>-</u>
Fund balance - ending	<u>\$ 3,403,898</u>	<u>\$ 3,403,898</u>	<u>3,395,121</u>	<u>\$ (8,777)</u>	<u>\$ 1,077,631</u>
Adjustment to GAAP basis:					
Interest receivable			<u>2,893</u>		
Net position - GAAP basis			<u>\$ 3,398,014</u>		

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
 SUMMARY OF NET POSITION
 BY FUND
 for the year ended June 30, 2020

Fund	Description	Net Position GAAP Basis
631	Sanitary Sewer Operating Fund	\$ 219,894,725
632	Sanitary Sewer System Development Charge Fund	\$ 39,662,587
635	State Loan Debt Service Fund	\$ (17,555,794)
636	Revenue Bond Debt Service Fund	\$ (89,818,748)
639	Sanitary Sewer Construction Fund	\$ 38,116,320
641	Surface Water Operating Fund	\$ 32,940,733
642	Surface Water System Development Charge Fund	\$ 2,287,295
649	Surface Water Construction Fund	\$ 3,398,014
	Total Net Position	\$ 228,925,132

Statistical Section



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, data for years prior to 2018 is not available for WES. Reference may be made to the prior fiscal year financial reports for WES' member districts, the Tri-City Service District and Clackamas County Service District No. 1, for comparison with FY 2020, FY 2019, and FY 2018 statistics.

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Debt Capacity 53

Ratios of Outstanding Debt by Type
Overlapping General Obligation Bonded Debt
Pledged Revenue Coverage

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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Full-Time Equivalent Employees by Function
Operating and Capital Indicators

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

Fiscal Year Ended June 30,	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2020	\$ 122,723,333	\$ 42,554,081	\$ 63,647,718	\$ 228,925,132
2019	109,060,156	34,282,157	70,503,282	213,845,595
2018	35,210,690	2,971,058	14,308,920	52,490,668

Source: WES' Comprehensive Annual Financial Report

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

CHANGES IN NET POSITION
Last Ten Fiscal Years

	2020	2019	2018
Operating revenues:			
Sanitary Sewer user charges	\$ 38,869,238	\$ 36,790,480	\$ 8,542,389
Surface Water user charges	5,163,571	4,910,321	185,646
Intergovernmental revenues	-	-	375,145
Other operating revenues	1,361,246	1,007,099	285,617
Total operating revenues	<u>45,394,055</u>	<u>42,707,900</u>	<u>9,388,797</u>
Operating expenses:			
Contracted salaries and benefits	13,300,131	12,337,188	2,639,533
Professional services	2,135,318	1,181,977	408,852
Laboratory services	65,272	31,724	247,851
Other County services	2,879,695	2,897,557	606,616
Supplies	3,248,542	2,904,075	1,488,169
Vehicle expenses	791,322	815,631	181,037
Repairs and maintenance	579,479	960,286	88,552
Utilities	1,602,852	1,767,914	685,523
Insurance	439,037	404,918	163,480
Other expenses	815,143	849,742	173,503
Depreciation and amortization	20,031,956	20,082,869	2,571,997
Total operating expenses	<u>45,888,747</u>	<u>44,233,881</u>	<u>9,255,113</u>
Operating income (loss)	<u>(494,692)</u>	<u>(1,525,981)</u>	<u>133,684</u>
Nonoperating revenue (expense):			
Interest income	1,762,557	1,806,268	189,261
Interest expense	(3,960,237)	(4,896,003)	-
Grants	173,504	-	-
Dispatchable power	69,100	69,100	-
Loss on disposal of capital assets	(197,017)	(45,338)	(4,761)
Total nonoperating revenue (expense)	<u>(2,152,093)</u>	<u>(3,065,973)</u>	<u>184,500</u>
Income (loss) before contributions and special items	<u>(2,646,785)</u>	<u>(4,591,954)</u>	<u>318,184</u>
Contributions:			
Connection charges	10,520,618	5,346,829	827,629
Capital contributions	7,205,704	5,034,881	145,208
Total contributions	<u>17,726,322</u>	<u>10,381,710</u>	<u>972,837</u>
Special item:			
Gain on transfer of operations	-	155,565,171	-
Change in net position	<u>\$ 15,079,537</u>	<u>\$ 161,354,927</u>	<u>\$ 1,291,021</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>2020</u>	<u>2019</u>	<u>2018</u>
Sanitary Sewer user charges			
Cities	\$ 14,346,181	\$ 13,801,878	\$ 8,308,939
Residential	12,194,781	11,400,628	196,864
Commercial	3,427,806	3,312,205	28,522
Industrial	1,134,271	884,807	-
Other	<u>7,766,199</u>	<u>7,390,962</u>	<u>8,064</u>
Total Sanitary Sewer user charges	<u>\$ 38,869,238</u>	<u>\$ 36,790,480</u>	<u>\$ 8,542,389</u>
Surface Water user charges			
Residential	\$ 1,826,448	\$ 1,713,821	\$ 148,106
Commercial	2,987,651	2,854,696	-
Other	<u>349,472</u>	<u>341,804</u>	<u>37,540</u>
Total Surface Water user charges	<u>\$ 5,163,571</u>	<u>\$ 4,910,321</u>	<u>\$ 185,646</u>

Source: WES' Records

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

MONTHLY SEWER AND SURFACE WATER RATES
Last Ten Fiscal Years

	2020	2019	2018
Sewer Rates per EDU			
Residential Customers			
Rate Zone 1	\$ 36.40	\$ 33.25	\$ 32.00
Rate Zone 2	50.55	48.15	-
Wholesale Customers			
Rate Zone 1	\$ 23.75	\$ 23.00	\$ 22.15
Rate Zone 2	37.90	36.10	-
Surface Water Rates per ESU			
Rate Zone 2	\$ 7.30	\$ 6.95	-
Rate Zone 3	4.45	4.25	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

	2020	2019	2018
Sanitary Sewer			
Connection fee/EDU ⁽¹⁾			
Rate Zone 1	\$ 7,850	\$ 3,490	\$ 3,125
Rate Zone 2	7,850	7,615	7,330
Total Connection Revenue	\$ 10,359,524	\$ 5,206,286	\$ 827,629
Surface Water			
Connection fee/ESU ⁽²⁾			
Rate Zone 2	\$ 211.00	\$ 205.00	\$ -
Total Connection Revenue	\$ 161,094	\$ 140,543	\$ -

EDU - Equivalent Dwelling Unit
ESU - Equivalent Service Unit

⁽¹⁾ 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.

⁽²⁾ One ESU is equal to 2,500 square feet of impervious surface area. The number of ESU's attributable to a user's area is calculated in whole units, with the minimum charge set at 1 ESU.

Source: WES Records

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

PRINCIPAL RATEPAYERS WITHIN WES⁽¹⁾
Last Ten Fiscal Years

	2020		2019		2018	
Customer	Revenue	Rank	Revenue	Rank	Revenue	Rank
City of Milwaukie	\$ 5,182,522	1	\$ 4,912,993	1	\$	
City of Oregon City	4,776,650	2	4,621,023	2	4,313,782	1
City of West Linn	3,034,254	3	2,945,391	3	2,827,032	2
City of Gladstone	1,226,320	4	1,202,042	4	1,168,125	3
Precision Castparts	571,400	5	556,110	5		
Forum Clackamas Campus	442,326	6	277,008	7		
Kaiser Hospital	354,979	7	373,687	6		
Riverwalk Happy Valley Apartments	244,357	8	232,753	8		
Big Reflections OR LLC	238,351	9	227,029	9		
Sun Country Village LLC	221,458	10				
Crown Court Apartments	215,893	11	205,638	10		
The Woods Apartments	208,196	12	198,305	11		
The Overlook at Causey Lane	180,029	13	171,476	13		
Clackamas Trails Apartments	173,587	14	165,341	14		
Clackamas Town Center	170,356	15	174,380	12		
Easton Ridge Apartments	170,210	16	162,124	15		
Hawksridge Apartments	159,626	17	152,241	16		
Oak Acres Mobile Home Park	152,269	18	145,024	17		
Squire's Court Apartments	150,166	19	143,033	18		
Fred Meyer General Merchandise Office	134,636	20	133,963	19		
Stone Ridge Apartments			124,728	20		
Total	\$ 18,007,585		\$ 17,124,289		\$ 8,308,939	

⁽¹⁾ In FY 2018, the cities of Oregon City, West Linn, and Gladstone accounted for more than ninety-five percent of total user charges.

Source: WES' Records

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

RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Revenue Bonds and Obligations	Loans Payable	Total	Percentage of Personal Income	Per Capita
2020	\$ 89,433,491	\$ 20,999,100	\$ 110,432,591	N/A	598
2019	93,744,647	10,315,874	104,060,521	N/A	569
2018	-	-	-	N/A	-

N/A: Not available

Source: WES' records

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

OVERLAPPING GENERAL OBLIGATION BONDED DEBT
June 30, 2020

Governmental Unit	Debt Outstanding	Percent Overlapping	Overlapping General Obligation Bonded Debt
Debt repaid with property taxes			
City of Oregon City	\$ 13,625,000	99.54 %	\$ 13,562,325
City of West Linn	31,015,000	99.94	30,996,391
Clackamas Community College	88,668,913	20.42	18,106,192
Clackamas County	121,210,000	15.08	18,278,468
Clackamas County Rural Fire Protection District #1	28,155,960	14.83	4,175,529
Clackamas County School District #115 (Gladstone)	35,488,599	71.65	25,427,581
Clackamas County School District #12 (North Clackamas)	681,734,563	0.26	1,772,510
Clackamas County School District #3J (West Linn/Wilsonville)	360,943,636	44.53	160,728,201
Clackamas County School District #46 (Oregon Trail)	83,539,476	100.00	83,539,476
Clackamas County School District #62 (Oregon City)	204,496,497	58.46	119,548,652
Clackamas County School District #7J (Lake Oswego)	265,745,846	0.33	876,961
Metro	964,085,000	3.69	35,574,737
Mt Hood Community College	20,510,000	16.52	3,388,252
Multnomah County School District #28J (Centennial)	15,045,275	8.20	1,233,713
Portland Community College	575,107,061	0.02	115,021
Tualatin Valley Fire & Rescue District	23,785,000	5.49	1,305,797
Other Debt			
City of Gladstone	3,857,291	73.23	2,824,694
City of Oregon City	15,551,574	99.54	15,480,037
Clackamas Community College	21,590,000	20.42	4,408,678
Clackamas County Education Service District	20,636,690	99.27	20,486,042
Clackamas County Rural Fire Protection District #1	13,885,000	14.83	2,059,146
Clackamas County School District #12 (North Clackamas)	2,156,303	0.26	5,606
Clackamas County School District #62 (Oregon City)	273,868	58.46	160,103
Metro	15,660,000	3.69	577,854
Mt. Hood Community College	31,807,708	16.52	5,254,633
Port of Portland	56,255,000	3.40	1,912,670
Portland Community College	69,690,000	0.02	13,938
Tualatin Valley Fire & Rescue District	10,410,000	5.49	571,509
Total overlapping debt	\$ 3,774,929,260		\$ 572,384,716

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 the WES. The State of Oregon provides overlapping debt data based on real market valuation of properties for each jurisdiction.

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

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

PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years

	2020	2019
Gross Revenues		
Monthly Service Charges	\$ 29,686,628	\$ 27,898,923
Operating Payment from Cities	14,346,181	13,801,878
Interest Earnings	1,762,557	1,806,268
Miscellaneous Income	1,361,246	1,007,099
Capital Charge Revenues	452,580	298,389
System Development Charges	10,044,368	4,888,525
Other Connection Charges	23,670	159,915
Total Gross Revenues	\$ 57,677,230	\$ 49,860,997
Operating Expenses		
Operation, Maintenance & Replacements	25,856,791	24,151,012
Total Operating Expenses	25,856,791	24,151,012
Net Operating Revenues	\$ 31,820,439	\$ 25,709,985
Revenue Bond Debt Service		
Series 2009A	-	1,228,150
Series 2009B	1,499,400	1,502,100
Series 2010	870,000	887,500
Series 2016	4,426,006	3,256,231
Total Revenue Bond Debt Service	\$ 6,795,406	\$ 6,873,981
Revenue Bonds Debt Service Coverage	4.68	3.74
Revenue Bonds Coverage without SDC's	3.20	3.03
Revenues Available for State Revolving Fund Loans	\$ 25,025,033	\$ 18,836,004
State Revolving Fund Loan Debt Service		
R06224	106,208	106,208
R95030	-	-
Total State Revolving Loan Debt Service	\$ 106,208	\$ 106,208
Revenues Available for Other Purposes	\$ 24,918,825	\$ 18,729,796

Source: WES' records

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

DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Ended June 30,	Population Estimate	Personal Income ¹	Per Capita Personal Income ¹	Unemployment Rate (PMSA)
2020	184,648	N/A	N/A	11.2
2019	182,901	N/A	N/A	3.7
2018	80,045	\$ 4,691,277,360	\$ 58,608	3.7 %

N/A: Not available

¹Figures are for calendar year; Personal Income and Per Capita Income for 2019 and 2020 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 ⁽¹⁾
Current Year and Nine Years Ago

Employer	2020			2011		
	Employees	Rank	Percentage of Total ⁽²⁾	Employees	Rank	Percentage of Total ⁽²⁾
Intel Corp.	20,600	1	.02 %	15,228	1	.01 %
Providence Health & Services	18,885	2	.02	13,831	2	.01
Oregon Health & Sciences University	17,556	3	.01	13,283	3	.01
Nike Inc.	12,000	4	.01	6,000	8	.01
Legacy Health	11,404	5	.01	8,250	6	.01
Kaiser Permanente	11,243	6	.01	9,204	5	.01
Fred Meyer	9,777	7	.01	9,630	4	.01
City of Portland	7,376	8	.01	5,000	10	.00
Portland Public Schools	6,500	9	.01	5,101	9	.00
Beaverton School District	5,458	10	.00			
Multnomah County				6,310	7	.01
Total	<u>120,799</u>		<u>0.11 %</u>	<u>91,837</u>		<u>0.08 %</u>

Sources:

⁽¹⁾ Statistics are the latest available data published in the Portland Business Journal *Book of Lists 2020*, and *Book of Lists 2011*. The Business Journal Book of Lists ranks Portland Metropolitan Area employers.

⁽²⁾ Total Portland Metropolitan Area employment used to calculate percentages is from the United States Department of Labor Bureau of Labor Statistics.

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

FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
Last Ten Fiscal Years

	2020	2019	2018
Function			
Business Services	22.2	22.6	2.8
Capital Planning and Management	17.0	16.4	4.3
Environmental Services	19.4	19.6	2.5
Operations	53.4	51.4	18.1
Total	112	110	27.7

In FY 2018, the Department Water Environment Services was responsible for the general management and operation of CCSD No. 1 and WES. Employees when possible, directly charged 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

	2020	2019	2018
Sanitary Sewer			
Number of Treatment Plants	4	4	1
Number of Pump Stations	21	21	4
Miles of Pipe	355.34	348.57	19.39
<u>Tri-City Water Resource Recovery Facility</u>			
Hydraulic treatment capacities (in million gallons/day)	11.90	11.90	11.90
System Demand - Current flows (in million gallons/day)	8.11	8.31	9.90
<u>Kellogg Creek Water Resource Recovery Facility</u>			
Hydraulic treatment capacities (in million gallons/day)	10.129	10.129	-
System Demand - Current flows (in million gallons/day)	5.65	6.09	-
Estimated Sanitary EDUs	81,267	79,194	30,152
Number of New Connections	1,260	727	262
Surface Water			
Catch Basins / Manholes	16,188	15,626	260
Miles of pipe	328.74	325.20	4.67
Estimated Surface Water ESUs	57,054	56,091	3,813

EDU - Equivalent Dwelling Unit
ESU - Equivalent Service Unit

Footnote: Residential Sanitary Sewer EDUs equal one dwelling unit; commercial Sanitary Sewer EDUs 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



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 (WES), a component unit of Clackamas County, Oregon, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise WES' basic financial statements, and have issued our report thereon dated December 3, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered WES' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WES' internal control. Accordingly, we do not express an opinion on the effectiveness of WES' 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 WES' 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 WES' 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 WES' 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
December 3, 2020

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 (WES), a component unit of Clackamas County, Oregon, as of and for the years ended June 30, 2020 and 2019, respectively, and have issued our report thereon dated December 3, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the 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 of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether WES' 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 162-10-0000 to 162-10-0330, 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 2020 and 2021.
- 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 Oregon Secretary of State.

Internal Control Over Financial Reporting

Management of WES is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered WES' 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 WES' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of WES' 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 WES' 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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purposes 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 WES' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State, in considering WES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James C. Lanzarotta, Partner
for Moss Adams LLP
Eugene, Oregon
December 3, 2020



CLACKAMAS
WATER
ENVIRONMENT
SERVICES

