



CLACKAMAS
WATER
ENVIRONMENT
SERVICES

ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the fiscal years ended June 30, 2024 and 2023

Water Environment Services

(A Component Unit of Clackamas County, Oregon)



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

ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the fiscal years ended June 30, 2024 and 2023

Prepared by:
WATER ENVIRONMENT SERVICES
Financial Management Program

Ron Wierenga, Assistant Director
Erin Blue, Finance Manager

WATER ENVIRONMENT SERVICES
(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, 2024

<u>Name</u>	<u>Term Expires</u>
Tootie Smith, Chair Public Services Building	December 31, 2024
Paul Savas, Commissioner Public Services Building	December 31, 2027
Martha Schrader, Commissioner Public Services Building	December 31, 2024
Mark Shull, Commissioner Public Services Building	December 31, 2024
Ben West, Commissioner Public Services Building	December 31, 2026

ADMINISTRATIVE OFFICES

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

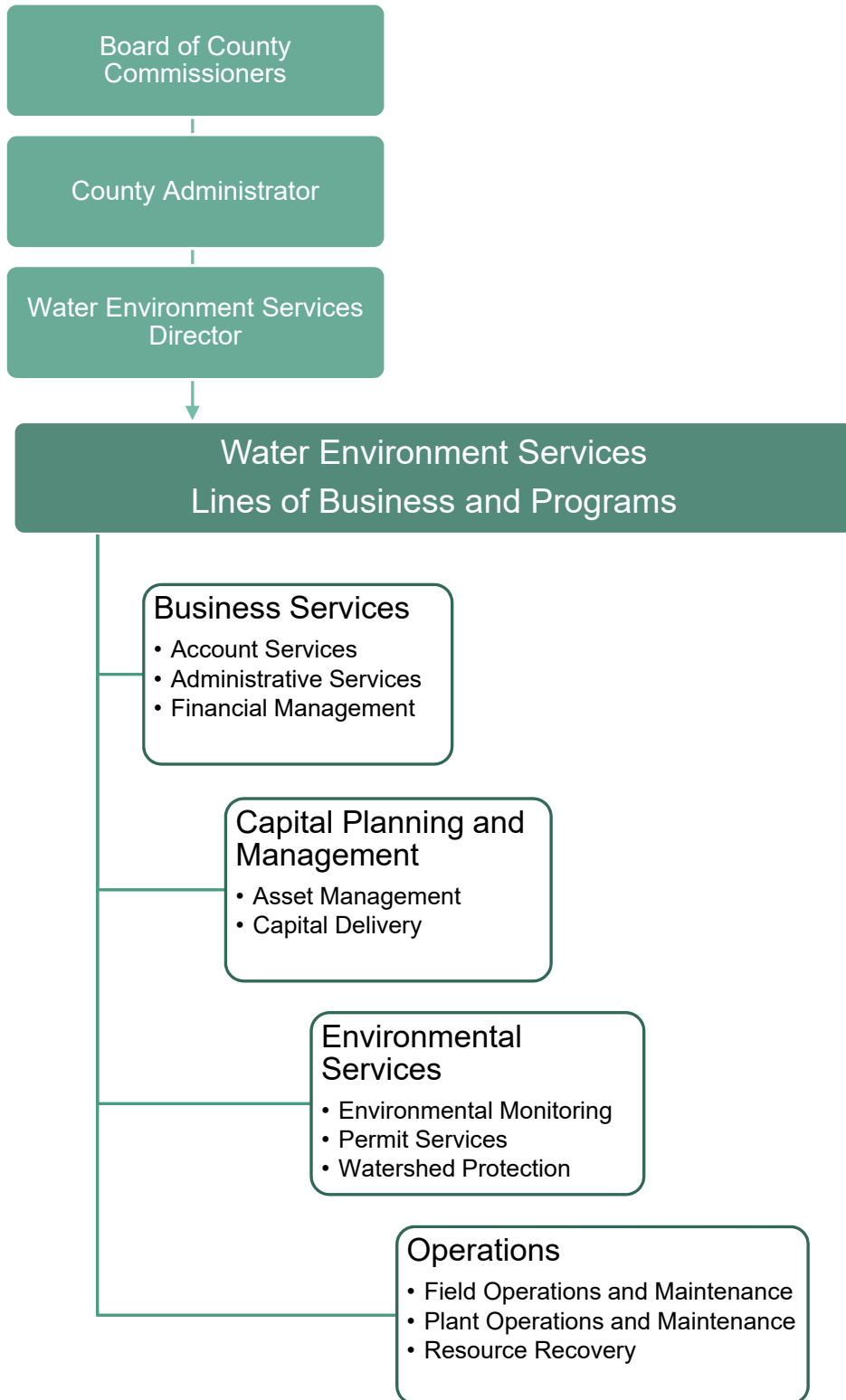
DISTRICT ADMINISTRATOR

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 2024





November 20, 2024

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 Annual Comprehensive 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, 2024, 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 and fairly presents the financial position, results of operations and cash flows of WES as of June 30, 2024, 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 its expected benefits; and (2) assessing costs and benefits requires management's estimates and judgment.

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
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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 accounting firm of Moss Adams LLP was selected to perform the audit for the years ended June 30, 2024 and 2023. The Report of Independent Auditors for WES' financial statements is located at the beginning of the Financial Section of this report.

Water Environment Services Profile

Water Environment Services 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 management). 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 jointly partnered 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; 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. From FY 2019 and forward, audited financial statements are 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.

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

WES provides retail sanitary sewer services (administration, operation, and maintenance of the collection and conveyance systems including pipes and pump stations), to the cities of Boring and Happy Valley, to unincorporated portions of North Clackamas County, a portion of the former city of Damascus, the communities of the Highway 26 Hoodland Recreational Corridor including Wemme and Welches, Fischer's Forest Park near Redland, and a small retail population outside of Oregon City. WES provides wholesale sanitary sewer services (operation and maintenance of the regional collection system and Water Resource Recovery Facilities (WRRFs) that treat and clean wastewater and return it to the rivers and streams) to the cities of Gladstone, Johnson City, Milwaukie, Oregon City, and West Linn. Revenues derived from customer rates and development fees fund WES services. WES operates five wastewater treatment facilities: Tri-City Water Resource Recovery Facility (Tri-City WRRF), Kellogg Creek Water Resource Recovery Facility (Kellogg Creek WRRF), Hoodland Water Resource Recovery Facility (Hoodland WRRF), Boring Water Resource Recovery Facility (Boring WRRF), and Fischer's Forest Park Water Resource Recovery Facility (Fischer's Forest Park WRRF).

WES performs surface water and stormwater management for the purpose of providing nonpoint source pollution controls to meet state and federal regulations. This includes the construction of capital improvements to address surface water quality and quantity, conducting basin analyses and other studies to identify and prioritize necessary capital projects, and implementing non-structural solutions such as maintenance of surface water facilities, public education, water quality monitoring programs, and preparation of intergovernmental agreements to support a regional approach to surface water management.

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.

Local Economy

As described above, WES is located in Clackamas County, Oregon. Clackamas County encompasses an area of approximately 1,879 square miles, and according to the most recent demographic data, has a population of approximately 424 thousand as of July 2023. WES' service area is a subset of the County encompassing approximately 66 square miles with an estimated service area population of approximately 199 thousand. Clackamas County's unemployment rate as of June 2024 is 3.7%, an increase of 0.4% from the unemployment rate at June 2023, and a decrease from a high of 11.2% in 2020.

Board of County Commissioners of Clackamas
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In December 2022, FCS Group completed a population growth forecast for WES, projecting an average annual growth rate of 1.0% through FY 2027-28. Although growth was slightly lower in FY 2023-24, the longer-term growth trend remains consistent with the study’s projections. This forecast continues to guide WES’ capital and financial planning efforts.

Long-term Planning and Major Initiatives

Similar to clean water agencies throughout the US region, WES is facing a number of challenges, including: investing in the renewal and replacement of aging infrastructure; constructing sufficient treatment and conveyance capacity to meet the anticipated demand for our services; maintaining affordable service rates while meeting financial needs; and responding to a challenging workforce environment.

In December 2023, staff completed a new strategic plan for FYs 2024-2026 to address current challenges and position WES for future success. An ongoing priority in FY 2024-25 is to advance this plan, which focuses on the seven key strategies outlined below.

No.	Strategy	Description
1	Workforce Planning and Development	We build an organization and work culture that attracts, retains, develops, engages, and invests in a high performing workforce to achieve our vision, mission, and support our values.
2	Utility Operations and Environmental Protection	We effectively manage wastewater and stormwater systems to meet or surpass environmental, safety, and public health standards, to recover resources and to protect watersheds.
3	Asset Management	We proactively invest in and maintain WES’ infrastructure assets to ensure the cost-effective, sustainable delivery of reliable, high quality, and efficient clean water services.
4	Capital Planning and Delivery	We strategically plan and upgrade WES’ infrastructure to ensure the sustainable delivery of reliable, high quality, and climate-resilient clean water services that support the growth and vitality of our communities, natural environment, and economy.
5	Financial Viability	We manage WES’ financial resources to meet present and future funding needs, and to maintain fair, reasonable, and equitable rates that demonstrate fiscal responsibility.
6	Customer Satisfaction	We provide reliable, responsive customer service that aligns with our communities’ values and the expressed needs of our customers.
7	Stakeholder Support	We are committed to building collaborative partnerships that result in a resilient clean water future, where all people benefit and rivers thrive, through proactive engagement, effective communication, public education, and community leadership.

Board of County Commissioners of Clackamas
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Water Environment Services
Oregon City, Oregon

In addition to the strategic plan, WES has developed a comprehensive wastewater master plan that outlines capital needs over the next 20 years, and a storm system master plan that provides short- and medium-term recommendations for capital and programmatic improvements. These master plans serve as the foundation for the currently adopted Capital Improvement Plan (CIP) for FY 2024/25 – 2028/29, which projects approximately \$260.0 million in capital investments over this five-year period. Successfully achieving this level of investment depends on external factors such as growth rates, regional economic conditions, supply chain stability, and the availability of skilled personnel and construction expertise. To the extent these variables are within WES' control, we anticipate being able to complete the identified projects.

WES' long-range financial planning is focused on meeting the capital investment needs outlined in the CIP while ensuring adequate resources for ongoing operations and maintenance. A key objective of this planning is to establish a rate structure that keeps future rate increases steady, predictable, and affordable, while sustaining services and funding capital improvements. This approach, along with careful financial management over the past several years, has allowed WES to fund capital improvements and meet operational needs with an average combined annual residential wastewater and surface water service rate increase of approximately 2.1%.

GFOA Certificate of Achievement for Excellence in Financial Reporting

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 annual comprehensive financial report for the fiscal year ended June 30, 2023. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current annual comprehensive financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate. To that end, we will advise the Board of the results of the GFOA's review of our report.

GFOA Distinguished Budget Presentation Award

WES received the GFOA's Distinguished Budget Presentation Award for its annual budget for the 2023-24 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.

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

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 Financial Management program of WES, who work diligently year-round to maintain accurate and timely financial records, and demonstrate fiscal responsibility to our customers and stakeholders. 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 Geist". The signature is written in a cursive style with a large initial "G" and a stylized "E".

Greg Geist
Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Water Environment Services
Oregon**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2023

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, which comprise the statements of net position as of June 30, 2024 and 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise WES' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of WES as of June 30, 2024 and 2023, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of WES and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about WES' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WES' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about WES' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

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 supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The 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 referred to above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2024, 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 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 also issued our report dated November 20, 2024, on our consideration of WES' compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-010-0000 through 162-010-0330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*. 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.



Ashley Osten, Partner, for
Moss Adams LLP
Portland, Oregon
November 20, 2024

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2024

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, 2024. We encourage readers to consider the information presented here in conjunction with the Basic Financial Statements, the Notes to the Basic Financial Statements, and the additional information contained in the Letter of Transmittal. All dollar amounts, unless otherwise indicated, are expressed in thousands.

Financial Highlights

- WES’ assets exceeded its liabilities and deferred inflows of resources (also defined as net position) at the close of the fiscal year (FY) by \$289,271. This amount reflects an increase of \$20,441 or 7.6% from FY 2023 and \$36,876 or 14.6% since FY 2022. For the fiscal year ended June 30, 2024, total net position of \$289,271 includes unrestricted net position of \$116,468 that may be used to meet our ongoing obligations of providing wastewater collection and treatment, and surface water services.
- Total net position in FY 2024 increased \$20,441 primarily due to capital contributions from developers and system development charges, as well as increases in operating revenues, and in interest income. Total net position increased \$16,435 in FY 2023 from FY 2022.
- WES’ total assets increased by \$16,705 to \$450,416 in FY 2024 from \$433,711 in FY 2023. In FY 2023, total assets increased by \$14,041 from \$419,670 in FY 2022. The change from FY 2023 includes a decrease in current assets of \$15,271, an increase in other assets, net, of \$8,974, an increase in capital assets, net, of \$23,184, and a decrease in restricted noncurrent assets of \$182.
- Total liabilities and deferred inflows of resources decreased by \$3,736 to \$161,145 in FY 2024, primarily due to a \$6,695 reduction in noncurrent liabilities from principal payments on long-term debt and a \$72 decrease in deferred inflows of resources from the recognition of lease revenues. These reductions were partially offset by a \$3,031 increase in current liabilities, reflecting higher outstanding payables at fiscal year-end. Total liabilities and deferred inflows of resources decreased \$2,394 in FY 2023 from FY 2022.
- Total operating revenues increased by \$2,489 over FY 2023 and total operating expenses decreased by \$108. These combined changes resulted in an increase in operating income of \$2,597. From FY 2022 to FY 2023, total operating revenues increased by \$2,203 and total operating expenses increased by \$2,010.
- In FY 2024, nonoperating revenues increased \$2,554 and nonoperating expenses increased \$879. From FY 2022 to FY 2023, nonoperating revenues increased \$3,801 and nonoperating expenses decreased \$1,151.

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 the Basic Financial Statements. Complementing these statements and notes is other Supplementary Information, which provides additional detail about WES’ operations.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2024

Overview of the Financial Statements (Continued)

The Statements of Net Position present information on all of WES’ assets, liabilities, and deferred outflows/inflows of resources, with the net difference between these components reported as net position. Over time, changes in 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 present cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

The basic financial statements can be found on pages 14 through 18 of this report.

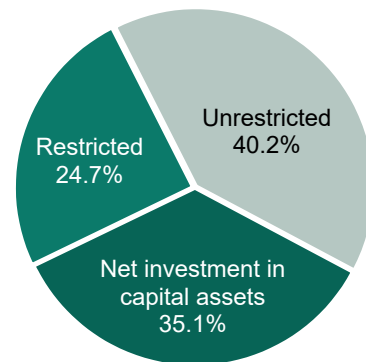
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide statements. The Notes to the Basic Financial Statements can be found on pages 19 through 39 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information concerning WES’ budgetary comparisons, beginning on page 40.

Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of financial position. In the case of WES, assets exceeded liabilities and deferred inflows of resources by \$289,271 at the close of FY 2024.

Of WES’ total net position, 35.1% reflects its net investment in capital assets, consisting of treatment facilities, land, collection and conveyance systems, buildings, machinery and equipment, vehicles, construction work in progress and intangible assets, less any related outstanding debt that was used to acquire those assets. These assets are used to provide services to WES’ customers; therefore this amount is not available for spending. Although WES’ investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



Restricted net position accounts for 24.7% and represents resources that are subject to external restrictions on how they may be used. This component includes revenue bond proceeds, state loans, advance deposits for capital projects, and system development charges.

The remaining 40.2% of total net position is unrestricted. These items have no external restriction concerning their use or function and may be used to finance day-to-day operations.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2024

Financial Analysis (Continued)

The condensed statements below offer a comparison of assets, liabilities, deferred inflows of resources, and net position at June 30, 2024, 2023 and 2022:

Statements of Net Position			
(In Thousands of Dollars)			
	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Current assets	\$ 129,324	\$ 144,595	\$ 130,648
Other assets, net	12,634	3,660	3,964
Noncurrent assets - restricted	60,064	60,246	62,657
Capital assets, net	<u>248,394</u>	<u>225,210</u>	<u>222,401</u>
Total assets	<u>450,416</u>	<u>433,711</u>	<u>419,670</u>
Current liabilities	20,536	17,505	11,759
Noncurrent liabilities	<u>140,500</u>	<u>147,195</u>	<u>155,263</u>
Total liabilities	<u>161,036</u>	<u>164,700</u>	<u>167,022</u>
Total deferred inflows of resources	<u>109</u>	<u>181</u>	<u>253</u>
Total liabilities and deferred inflows of resources	<u>161,145</u>	<u>164,881</u>	<u>167,275</u>
Net investment in capital assets	101,419	96,289	103,990
Restricted for capital projects	65,355	64,029	70,634
Restricted for debt service	6,029	6,484	9,871
Unrestricted	<u>116,468</u>	<u>102,028</u>	<u>67,900</u>
Total net position, end of year	<u>\$ 289,271</u>	<u>\$ 268,830</u>	<u>\$ 252,395</u>

Changes in net position are also attributed to changes in revenues and expenses as a result of operations, which is discussed in the next section.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2024

Financial Analysis (Continued)

The condensed statements below offer a comparison of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2024, 2023 and 2022:

Statements of Changes in Net Position

(In Thousands of Dollars)

	2024	2023	2022
Sanitary Sewer user charges	\$ 44,135	\$ 42,256	\$ 40,803
Surface Water user charges	6,440	6,034	5,677
Other operating revenues	1,717	1,513	1,120
Operating revenues	52,292	49,803	47,600
Interest income	6,377	4,749	895
Other	926	-	53
Nonoperating revenues	7,303	4,749	948
Total Revenues	59,595	54,552	48,548
Contracted salaries and benefits	15,567	13,952	13,266
Materials and services	28,837	30,561	29,237
Operating expenses	44,404	44,513	42,503
Interest expense	2,872	3,125	3,846
Other	1,266	134	564
Nonoperating expenses	4,138	3,259	4,410
Total expenses	48,542	47,772	46,913
Income before contributions	11,053	6,780	1,635
Contributions	9,388	9,655	13,708
Change in net position	20,441	16,435	15,343
Net position - beginning of year	268,830	252,395	237,052
Net position - end of year	\$ 289,271	\$ 268,830	\$ 252,395

As shown in the schedule above, overall, WES' net position increased by \$20,441 or 7.6% in FY 2024 over FY 2023, and by \$16,435 or 6.5% in FY 2023 over FY 2022.

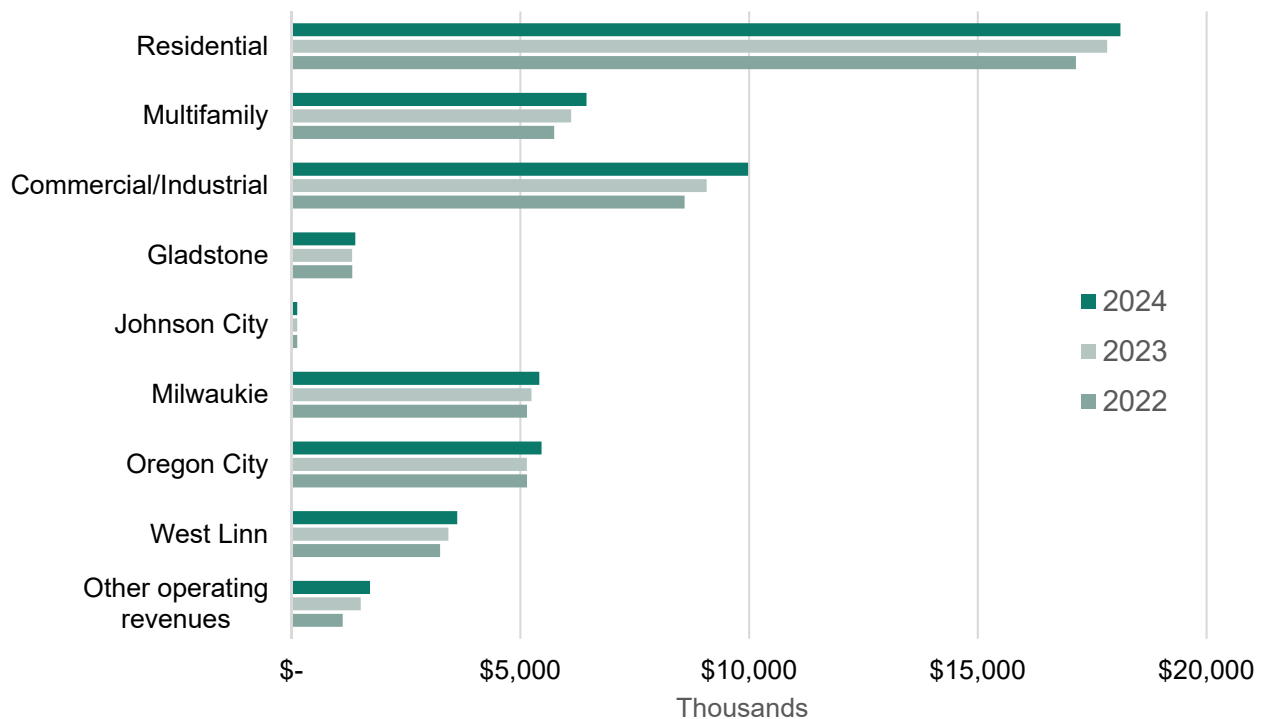
WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2024

Financial Analysis (Continued)

In both FY 2024 and FY 2023, operating revenues exceeded operating expenses. Total operating revenues in FY 2024 increased \$2,489, or 5.0%, to \$52,292. Operating revenues in FY 2023 and FY 2022 were \$49,803 and \$47,600, respectively. Revenue from sanitary sewer user charges increased \$1,879 or 4.5%, and revenues from surface water user charges increased \$406 or 6.7%. These increases were due to monthly rate increases for FY 2024 that ranged from 0% to 5.1%, depending on the type of service, as well as customer growth in the service area.

In the chart below, sanitary sewer charges are reflected in the revenue from cities and portions of commercial/industrial, multifamily, and residential revenues, while surface water charges make up the remaining portions. Other operating revenues consist of permit and plan review fees, right-of-way fees, lien search fees, and other minor revenue items.

OPERATING REVENUES (1), (2)



(1) Beginning in FY 2023, operating revenues for the cities of Gladstone and Oregon City right-of-way charges have been reclassified to other operating revenues. In prior fiscal years, these amounts were included with city sewer revenue.

(2) A portion of FY 2022 residential revenues has been reclassified to the commercial/industrial category to match FY 2023 presentation.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2024

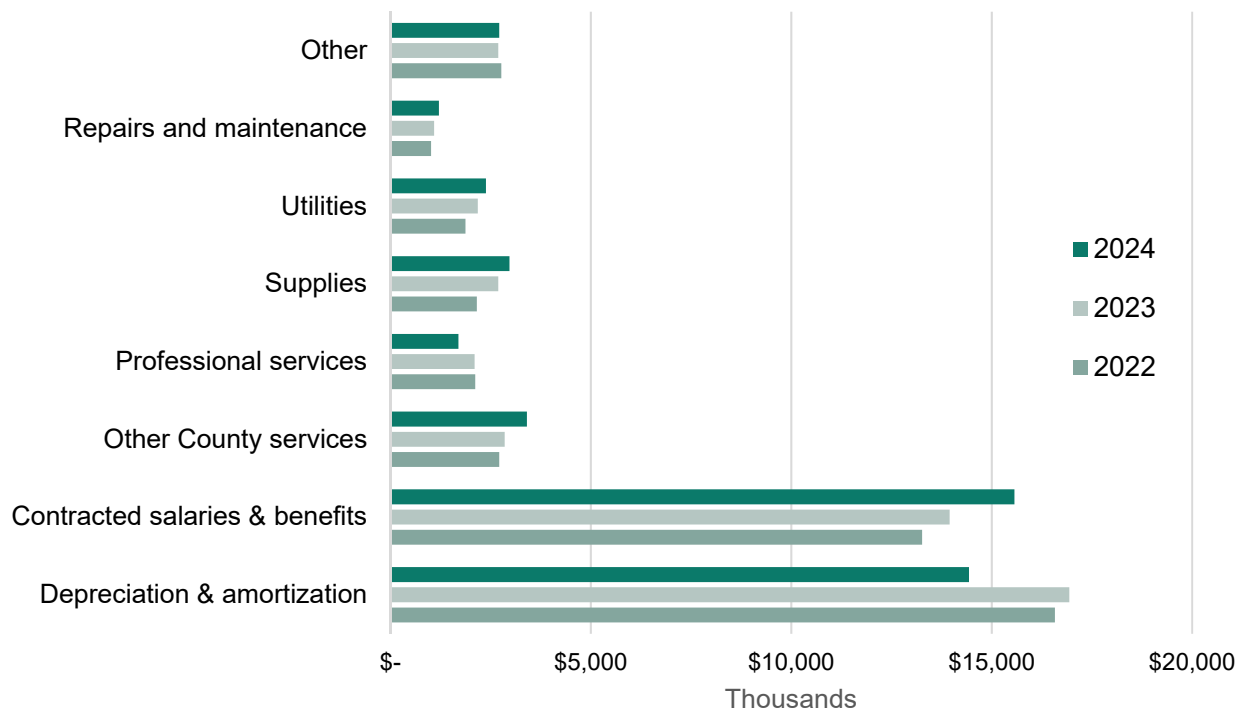
Financial Analysis (Continued)

Total operating expenses decreased by \$109, or 0.2%, in FY 2024. This change was primarily driven by decreases in depreciation and amortization expense, resulting from certain assets being fully depreciated in FY 2023, and reduced professional services expenses following the completion of one-time initiatives in the prior year. These reductions were partially offset by increased costs in contracted salaries and benefits, other County services, chemicals and other plant supplies, utilities, and contracted repairs and maintenance.

Contracted salaries and benefits rose by \$1,615, or 11.6%, due to lower vacancy rates, cost-of-living adjustments, and salary adjustments based on market studies conducted during FY 2024. Utility expenses increased by \$202, reflecting higher electricity costs and increased sewer costs for contracted wastewater treatment services in a portion of WES’ service area. Other County services rose by \$556 due to higher salary costs for embedded personnel and increased vehicle repair and maintenance expenses for WES’ fleet. Additionally, an update to the County’s cost allocation plan in FY 2023 resulted in a larger share of internal and central service costs being allocated to WES and other non-internal service departments.

Operating expenses increased by \$2,010 or 4.7% in FY 2023 from FY 2022 driven primarily by increases in costs for contracted labor, utilities, and chemicals and other plant supplies.

OPERATING EXPENSES



* Other includes laboratory services, vehicle expenses, insurance, and other minor expense items.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2024

Financial Analysis (Continued)

Total nonoperating revenues increased by \$2,554. This change was driven by higher investment earnings from increased interest rates, partially offset by a year-end investment valuation adjustment, as well as federal grant revenue. Federal grant funding for FY 2024 included the recognition of \$710 from American Rescue Plan Act (ARPA) revenue loss funding directed toward wastewater infrastructure projects, and \$169 from Coronavirus State and Local Fiscal Recovery Funds allocated to surface water capital projects.

Total nonoperating expenses increased by \$879, primarily due to a capital donation of wastewater collection infrastructure to WES' partner cities under the Regional Inflow and Infiltration (I&I) Reduction agreement. Further details regarding the Regional I&I Reduction agreement can be found in Note 12.

From FY 2022 to FY 2023, nonoperating revenues increased by \$3,801 and nonoperating expenses decreased by \$1,151.

Contributions, which include system development charges for new connections and developer-donated infrastructure, decreased \$267 or 2.8% in FY 2024. This change is due to lower system development charge collections reflecting reduced residential and multifamily development activity during FY 2024, partially offset by an increase in developer-donated infrastructure.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2024, WES' investment in capital assets amounted to \$248,394, compared to \$225,210 as of June 30, 2023 (net of accumulated depreciation and amortization). Total additions to capital assets during FY 2024, before accounting for depreciation and amortization, were approximately \$38.9 million. These additions included \$33.5 million in construction work in progress, \$5.2 million in donated capital assets from developers, and approximately \$0.2 million in intangible right-to-use subscription assets.

During FY 2024, approximately \$21.1 million of construction work in progress was placed into service.

The overall change in WES' capital assets for FY 2024 was \$23,184 or 10.3%, which included an increase of \$11,512 in land, easements, and construction in progress reflecting spending on several multi-year projects; an increase of \$170 in intangible assets, net, due to right-to-use subscription assets acquired in FY 2024; and an increase of \$11,502 in plant and equipment, net, due to assets placed into service during FY 2024. From FY 2022 to FY 2023, capital assets increased by \$2,809.

Capital asset balances by asset category for FY 2024 and the two prior fiscal years are included in the schedule on the following page.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2024

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

Capital Assets (net of depreciation and amortization)			
(In Thousands of Dollars)			
	2024	2023	2022
Land and easements	\$ 10,119	\$ 9,806	\$ 9,692
Construction in progress	34,252	23,053	8,476
Intangibles	22	30	39
Right-to-use subscription assets	424	246	-
Right-to-use lease equipment	-	-	6
Collection plant	101,398	100,227	102,976
Pumping plant	11,653	7,370	9,333
Treatment plant	74,750	67,832	74,958
General plant	15,776	16,646	16,921
Total	\$ 248,394	\$ 225,210	\$ 222,401

Additional information on WES' capital assets can be found in Note 6 beginning on page 28 of this report.

Debt

As of June 30, 2024, WES had total debt outstanding of \$146,611, compared to \$156,071 as of June 30, 2023 (net of unamortized premiums). Of the amount outstanding as of June 30, 2024, \$9,296 is due within one year.

The schedule below provides a summary of WES' outstanding debt at year-end. Sewer revenue obligations are reflected net of unamortized premiums as disclosed in the notes to the financial statements.

Outstanding Debt			
(In Thousands of Dollars)			
	2024	2023	2022
Sewer revenue obligations	\$ 110,158	\$ 118,256	\$ 125,884
State revolving fund loans	36,131	37,678	36,000
Subscription and lease liabilities	322	137	5
Total	\$ 146,611	\$ 156,071	\$ 161,889

Long-term debt decreased by \$9,460 in FY 2024 due to scheduled payments made on outstanding debt, partially offset by proceeds from an Oregon Department of Environmental Quality (DEQ) State Revolving Fund (SRF) Loan used to fund a surface water capital project.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2024

Capital Assets and Debt Administration (Continued)

Debt (Continued)

As of June 30, 2024, WES' outstanding debt includes: three SRF loans; a refunding issue of revenue obligations that refinanced the majority of three series of revenue obligations and one State Revolving Fund loan; an original issue of revenue obligations; and four right-to-use software subscription contracts.

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 S&P Global Ratings; this rating was originally obtained in May 2018 and was reaffirmed in February 2021.

Additional information on WES' long-term debt can be found in Notes 8 through 10 beginning on page 30 of this report.

Economic Factors and Next Year's Budget and Rates

In FY 2023-24, WES received approximately \$4.3 million in System Development Charge (SDC) revenue, reflecting a decrease of \$2.6 million from FY 2022-23's total of \$6.9 million. This decrease aligns with a slower pace of development activity during the fiscal year. SDCs are a key source of funding for capital construction projects to expand system capacity and can also be used to retire existing revenue bond debt. Despite the lower level of development, the sanitary sewer customer base grew by 0.6%, with approximately 475 new connections added.

In December 2022, FCS Group completed a population projection for WES' sanitary sewer service area, forecasting average annual growth of 1.0% through FY 2027-28. While development activity was slightly lower than the 1.0% projected during FY 2023-24, this trend is expected to reverse with a resumption of construction in late 2024 as interest rates stabilize. Based on these projections, WES' budgeting and financial planning continues to assume a 1.0% growth rate.

WES' rate base generates sufficient revenue to cover operating expenses and fund future capital construction projects.

The adopted FY 2024-25 budget established a retail monthly wastewater treatment and collection rate of \$53.60 per equivalent dwelling unit (EDU) and a wholesale wastewater treatment rate of \$29.30 per EDU. Additional charges are included in the rates for the cities of Gladstone, Happy Valley, and Oregon City to cover their right-of-way (ROW) fees. Each city to which WES provides wholesale service adds a charge to WES' base wastewater treatment rate to cover the costs of building and maintaining their respective wastewater collection systems.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2024

Economic Factors and Next Year's Budget and Rates (Continued)

The FY 2024-25 budget included a surface water rate increase of \$0.25 from \$5.20 per equivalent service unit (ESU) to \$5.45 per ESU in Rate Zone 3 and an increase of \$0.45 from \$8.65 per ESU to \$9.10 per ESU in Rate Zone 2. Please see WES' budget for a more detailed explanation of its ratemaking approach.

WES' FY 2024-25 budget totals \$275,940, a decrease of 4.5% from FY 2023-24's budget. Revenues are projected to increase by \$5.2 million, or 8.3% as a result of growth in the service area, the rate increases outlined above, and higher investment earnings driven by increased interest rates. Materials and services are expected to increase by approximately \$1.5 million, or 4.7% primarily due to increases in contracted labor costs related to reduced vacancies and salary adjustments. Other factors contributing to the increase in materials and services include increases in the costs of services provided by the County to WES, ongoing cost pressures in key operating inputs such as chemicals and electricity, and increased discretionary spending for one-time initiatives included in WES' strategic plan.

Capital spending remains a significant focus, with \$79.5 million allocated for infrastructure improvements and capacity expansion as part of WES' Capital Improvement Plan (CIP). Staffing levels remain stable following the addition of two engineering positions in the FY 2023-24 budget to support CIP implementation.

Financial Contact

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

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Basic Financial Statements



WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET POSITION
June 30, 2024 and 2023

	2024	2023
ASSETS		
Current assets:		
Pooled cash and investments	\$ 108,309,948	\$ 91,721,563
Pooled cash and investments - restricted	12,005,051	32,902,095
Unbonded assessments receivable, net	65,945	73,017
Accrued interest receivable on assessments, net	862,808	840,777
Accounts receivable	6,402,369	7,397,780
Interest receivable	846,856	1,850,283
Lease receivable	72,000	90,000
Advance deposits for capital projects	-	9,257,002
Prepaid expenses	759,013	462,375
Total current assets	129,323,990	144,594,892
Noncurrent assets:		
Pooled cash and investments - restricted	60,064,162	60,246,329
Capital assets:		
Land, easements, and construction in progress	44,370,993	32,859,284
Plant and equipment, net	203,577,100	192,074,605
Intangible assets, net	446,102	276,420
Connection charges receivable, noncurrent portion	97,579	188,972
Bonded assessments receivable, net	85,254	85,254
Advance deposits for capital projects, noncurrent	9,257,002	-
Contracts receivable	2,000,000	2,000,000
Lease receivable, noncurrent	27,231	98,447
Unbonded assessments receivable, noncurrent portion	1,166,391	1,286,939
Total noncurrent assets	321,091,814	289,116,250
TOTAL ASSETS	450,415,804	433,711,142
LIABILITIES		
Current liabilities:		
Accounts payable	9,267,681	5,284,603
Contract labor payable, due to Clackamas County	1,105,423	909,497
Subscription and lease liabilities, current portion	96,098	48,976
Unearned income	-	710,431
Due to Clackamas County	464,627	1,359,519
Accrued interest, payable from restricted assets	402,250	365,203
Loan payable, current portion	1,859,727	1,842,323
Current portion of long-term debt, payable from restricted assets	7,340,000	6,985,000
Total current liabilities	20,535,806	17,505,552

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET POSITION (Continued)
June 30, 2024 and 2023

	2024	2023
Noncurrent liabilities:		
Subscription and lease liabilities, net of current portion	\$ 225,618	\$ 88,380
Long-term contracts	1,900,000	-
Arbitrage rebate payable	1,285,049	-
Long-term debt, net of current portion, payable from restricted assets	102,818,144	111,271,052
Loan payable, net of current portion	34,271,735	35,835,194
Total noncurrent liabilities	140,500,546	147,194,626
TOTAL LIABILITIES	161,036,352	164,700,178
Deferred inflows of resources:		
Leases	108,625	181,042
Total deferred inflows of resources	108,625	181,042
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	161,144,977	164,881,220
NET POSITION		
Net investment in capital assets	101,418,912	96,288,720
Restricted for capital projects	65,355,349	64,029,468
Restricted for debt service	6,028,905	6,484,120
Unrestricted	116,467,661	102,027,614
TOTAL NET POSITION	\$ 289,270,827	\$ 268,829,922

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, 2024 and 2023

	2024	2023
Operating revenues:		
Sanitary Sewer user charges	\$ 44,134,485	\$ 42,256,191
Surface Water user charges	6,440,253	6,033,587
Other operating revenues	1,717,243	1,513,312
Total operating revenues	52,291,981	49,803,090
Operating expenses:		
Contracted salaries and benefits	15,567,418	13,951,925
Professional services	1,701,241	2,103,735
Laboratory services	139,217	98,734
Other County services	3,408,612	2,852,981
Supplies	2,974,055	2,696,211
Vehicle expenses	957,806	864,843
Repairs and maintenance	1,214,286	1,094,346
Utilities	2,385,894	2,184,178
Insurance	529,474	464,209
Other expense	1,090,920	1,265,867
Depreciation and amortization	14,435,717	16,935,862
Total operating expenses	44,404,640	44,512,891
Operating income	7,887,341	5,290,199
Nonoperating revenues (expenses):		
Interest income	6,377,148	4,749,033
Interest expense	(2,872,204)	(3,125,646)
Federal and state grants	926,533	-
Capital donations	(1,098,454)	-
Loss on disposal of capital assets	(167,148)	(133,895)
Total nonoperating revenues (expenses)	3,165,875	1,489,492
Income before contributions	11,053,216	6,779,691
Contributions:		
Connection charges	4,261,045	6,894,764
Capital contributions	5,126,644	2,760,563
Total contributions	9,387,689	9,655,327
Change in net position	20,440,905	16,435,018
Net position - beginning of year	268,829,922	252,394,904
Net position - end of year	\$ 289,270,827	\$ 268,829,922

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, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Received from customers	\$ 50,068,309	\$ 48,406,066
Payments to suppliers for goods and services	(11,313,856)	(10,895,898)
Payments to related entities for services	(19,287,364)	(16,624,985)
Other operating revenue	1,723,961	1,565,335
Net cash from operating activities	21,191,050	22,450,518
Cash flows from capital and related financing activities:		
Principal paid on capital debt	(8,923,727)	(7,537,566)
Interest paid on capital debt	(2,663,016)	(4,210,300)
Proceeds from loans	296,268	2,644,727
Assessment and contract principal collected	127,620	226,819
Interest received on assessments and contracts	89,612	74,102
Connection charges collected	5,960,125	6,608,609
Federal and state grant revenue	50,283	-
Proceeds from the sale of capital assets	30,206	50,791
Acquisition and construction of capital assets	(27,930,194)	(13,895,056)
Net cash from capital and related financing activities	(32,962,823)	(16,037,874)
Cash flows from investing activities:		
Interest received	7,280,947	3,053,733
Net cash from investing activities	7,280,947	3,053,733
Net change in cash and cash equivalents	(4,490,826)	9,466,377
Pooled cash and investments, beginning of year	184,869,987	175,403,610
Pooled cash and investments, end of year ⁽¹⁾	\$ 180,379,161	\$ 184,869,987
⁽¹⁾ Pooled cash and investments are reflected on the		
Statements of Net Position as follows:		
Current assets - unrestricted	\$ 108,309,948	\$ 91,721,563
Current assets - restricted	12,005,051	32,902,095
Noncurrent assets - restricted	60,064,162	60,246,329
	\$ 180,379,161	\$ 184,869,987

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 (Continued)
for the fiscal years ended June 30, 2024 and 2023

	2024	2023
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 7,887,341	\$ 5,290,199
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	14,435,717	16,935,862
Changes in assets and liabilities:		
Decrease (increase) in user charges and other receivables	(493,110)	110,274
Increase in prepaid expenses	(296,638)	(215,934)
Increase (decrease) in accounts payable and Due to Clackamas County	(538,186)	454,650
Increase in Contract labor payable, due to Clackamas County	195,926	141,876
Decrease in other liabilities	-	(266,409)
Total adjustments	13,303,709	17,160,319
Net cash from operating activities	\$ 21,191,050	\$ 22,450,518
Noncash capital and related financing activities:		
Contributions of capital assets from governments, developers and customers	\$ 5,126,644	\$ 2,760,563
Right-to-use subscription and lease asset additions	280,764	188,319
Acquisition and construction of capital assets on account	5,547,809	3,116,893
Donation of capital assets	(1,098,454)	-

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, 2024 and 2023

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 Management 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 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 Annual Comprehensive Financial Report of Clackamas County, Oregon for the year ended June 30, 2024.

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 seven individual funds for state legal compliance, which are combined and reported as a unitary enterprise, similar to a commercial entity organized for profit in financial reporting.

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

WES distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations, primarily wastewater treatment and collection, and surface water management operations. Operating expenses include the cost of materials and services. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. Contributions represent system development charges, as well as capital assets contributed by governments and developers.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

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, and instrumentalities, of the U.S. or enterprises sponsored by the U.S. Government and obligations whose payment is guaranteed by the U.S., agencies and instrumentalities of the U.S. or enterprises sponsored by the U.S. Government, 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, 2024 and 2023 and for the years 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 Annual Comprehensive Financial Reports for the fiscal years ended June 30, 2024 and 2023.

Assessments Receivable

Assessments receivable represent the uncollected amounts levied against benefited property for the cost of local improvements. The assessments are generally payable over a period of twenty years at interest rates ranging from 5.0% to 10.18%. 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, 2024 is \$516,953 of which \$143,009 is accrued interest. The balance of the allowance at June 30, 2023 was the same. 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' service area. An allowance for doubtful accounts is not deemed necessary as uncollectible accounts become a lien on the property.

Lease Receivable

Lease receivable are initially measured at the present value of the lease payments expected to be received during the lease term. A deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

Restricted Assets and Related Liabilities

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

Capital Assets

Capital assets are tangible and intangible assets, which include property, plant, equipment, software, and permits. Capital assets, except for intangible right-to-use assets, are defined by WES as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life in excess of one year.

Capital assets are stated at historical cost (except for intangible right-to-use assets, the measurement of which is discussed in separate paragraphs below). Routine maintenance and repairs that do not increase the asset's value or extend its useful life are expensed rather than capitalized. Donated capital assets are recorded at the acquisition value at the date of donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

Land and construction in process are not depreciated. The other tangible and intangible property, plant, and equipment are depreciated/amortized using the straight-line method over their estimated useful lives as follows:

<u>Capital Asset Class</u>	<u>Useful Lives</u>
Plant and buildings	10 - 50 years
Collection system	10 - 50 years
Equipment	5 - 20 years
Intangible assets	5 - 10 years

WES periodically reevaluates the estimated useful lives of these assets.

Intangible right-to-use assets include lease assets and subscription assets.

Lease assets are measured at an amount equal to the initial measurement of the related lease liability plus any payments made prior to the lease term and certain ancillary charges necessary to place the lease asset into service. WES' capitalization threshold for lease assets is an initial measurement of \$10,000 or more, and a lease term (including possible extensions) of greater than one year. Lease assets are amortized on a straight-line basis over the life of the related lease.

Subscription assets are measured at an amount equal to the initial measurement of the related subscription liability plus payments made before the commencement of the subscription term, as well as capitalizable initial implementation costs necessary to place the subscription asset into service. WES' capitalization threshold for subscription assets is an initial measurement of \$100,000 or more, and a subscription term (including possible extensions) of greater than one year. Subscription assets are amortized on a straight-line basis over the subscription term.

Intangible right-to-use lease and subscription assets are reported with other intangible capital assets on the Statements of Net Position.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows / Inflows of Resources

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

The Statements of Net Position will also sometimes report a separate section for deferred inflows of resources, which represents an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until then. WES' Statements of Net Position include the deferred inflows from leases within this section.

Bonds

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

Net Position

Net position represents the cumulative results of operating and nonoperating revenues, expenses and nonoperating expenses, and capital contributions. Net position is classified into the following components:

Net Investment in Capital Assets: This component consists of all capital assets, net of accumulated depreciation and amortization, and reduced by any outstanding debt directly related to the acquisition, construction, or improvement of those assets. Debt related to unspent bond proceeds or other restricted cash and investments is excluded from the calculation of this component.

Restricted Net Position: Restricted net position is reported when constraints are imposed by external parties, such as lenders, grantors, contributors, laws, or regulations, or through enabling legislation or contractual agreements. Restricted net position is further classified as follows:

Restricted for Capital Projects: The balance of \$65,355,349 at June 30, 2024, and \$64,029,468 at June 30, 2023, consists of unspent System Development Charges (SDCs) and an advance deposit for capital projects under a cooperative utility agreement. These amounts are restricted due to enabling legislation and contractual agreements that dictate their use for specific capital projects.

Restricted for Debt Service: This portion of net position is restricted for the payment of debt service obligations, according to bond covenants and other external restrictions.

Unrestricted Net Position: This component consists of all other net position not included in the above categories. It represents resources that are available to meet ongoing operational and capital needs without externally imposed restrictions.

WES may fund outlays for a particular purpose from both restricted and unrestricted resources. To calculate the amounts reported as restricted and unrestricted net position in WES' 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 resources to have been depleted before using any of the components of unrestricted resources.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Advance Deposits for Capital Projects

Advance deposits for capital projects represent prepayments made under cooperative agreements. These amounts are classified as current or noncurrent based on the expected timing of draws, which may occur either at project completion or throughout the project's duration, per the terms of the agreement.

For agreements where draws occur throughout the project, amounts are expensed as draws are made. For agreements where draws occur upon project completion, expenses and corresponding liabilities are recorded based on the estimated work completed for the fiscal year.

Prepaid Expenses

Payments to vendors for goods or services that will be received in future periods are recorded as prepaid items and expensed as consumed.

Adoption of New GASB Pronouncements

During the fiscal years ended June 30, 2024 and 2023, the following new GASB pronouncements became effective:

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

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.

In accordance with the requirements of GASB 96, WES' Statements of Net Position include right to use subscription assets, classified as intangible capital assets, and current and noncurrent subscription liabilities. WES' Statements of Revenues, Expenses, and Changes in Net Position include interest expense and amortization related to the right to use subscription assets.

GASB Statement No. 99, *Omnibus 2022*, Issued April 2022.

GASB Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*, Issued June 2022.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

Future Adoption of GASB Pronouncements

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2024:

GASB Statement No. 101, *Compensated Absences*, Issued June 2022.

GASB Statement No. 102, *Certain Risk Disclosures*, Issued December 2023.

GASB Statement No. 103, *Financial Reporting Model Improvements*, Issued April 2024.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, Issued September 2024.

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 generally accepted accounting principles (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 and amortization 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, 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.

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 a hearing before the public, publication, 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.

There were no supplemental budgets or budget transfers for FY 2023-24.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

3. Pooled Cash and Investments

At June 30, pooled cash and investments consist of the following:

	2024	2023
Petty cash	\$ 1,000	\$ 1,200
Pooled cash and investments	180,378,161	184,868,787
	\$ 180,379,161	\$ 184,869,987

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 WES 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 WES' own assumptions used in determining the fair value of investments).

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

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

Reference may be made to the June 30, 2024 and June 30, 2023 Annual Comprehensive Financial Reports of Clackamas County for the classifications of WES' pooled accounts maintained by the County Treasurer.

Oregon Revised Statutes (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 June 30, 2024 and June 30, 2023 Clackamas County Annual Comprehensive Financial Reports for compliance with these statutes.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

3. Pooled Cash and Investments (Continued)

PFM Asset Management LLC provides administrative and operational support for the Local Government Investment Pool (LGIP). The LGIP is an open-ended no-load diversified portfolio. The LGIP is offered to, but are not limited to, any municipality, political subdivision or public corporation of Oregon who by law is made the custodian of, or has control of, any public funds. The LGIP is commingled with state funds in the Oregon Short-Term Fund (OSTF). In seeking to best serve participants, the Oregon Legislature established the OSTF Board. The OSTF Board advises the Oregon Investment Council and State Treasury in the management and investments of the OSTF. The OSTF is an external investment pool. The OSTF is not registered with the U.S. Securities and Exchange Commission as an investment company. Separate financial statements for the OSTF are available from the Oregon State Treasurer.

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 June 30, 2024 and June 30, 2023 Clackamas County Annual Comprehensive Financial Reports for disclosures of the risk inherent in the County's portfolio.

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 Annual Comprehensive 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 Annual Comprehensive 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-line with the County's investment policy.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

4. Accounts Receivable

At June 30, amounts consist of the following:

	2024	2023
User charges	\$ 5,796,008	\$ 5,289,578
Connection charges from cities	131,910	1,675,630
Current connection charges receivable, including interest of \$5,308 at June 30, 2024 and \$38,108 at June 30, 2023	19,763	116,529
Interest receivable on contracts	75,616	55,616
Intergovernmental agreement and miscellaneous receivables	379,072	260,427
	\$ 6,402,369	\$ 7,397,780

5. Lease Receivable

On June 2, 2022, WES entered into a 43-month lease as Lessor for the use of 3 acres of land at the Tri-City Water Resource Recovery Facility. An initial lease receivable was recorded in the amount of \$259,292. The lease receivable is measured at the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 0.527%. As of June 30, 2024 and 2023, the lease receivable is \$99,231 and \$188,447, respectively. Under the lease agreement, the lessee is required to make quarterly fixed payments of \$18,000. A deferred inflow is recorded for the lease in an amount equal to the initial recording of the lease receivable and amortized on a straight-line basis over the term of the lease. The value of the deferred inflow of resources as of June 30, 2024 and 2023, is \$108,625 and \$181,042, respectively. The lessee has 2 extension options, each for 6 months.

In FY 2023-24, WES recognized \$72,417 of lease revenue and \$745 of interest revenue under the lease. In FY 2022-23, WES recognized \$72,417 of lease revenue and \$1,236 of interest revenue under the lease.

Future receipts related to the lease receivable are as follows:

Fiscal Year	Principal	Interest	Total
2025	\$ 71,618	\$ 382	\$ 72,000
2026	27,231	49	27,280
	\$ 98,849	\$ 431	\$ 99,280

On the Statements of Net Position, the current portion of the lease receivable includes the related interest, while the noncurrent portion reflects only the principal amount due in future periods.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

6. Capital Assets

Changes in capital assets for the year ended June 30, 2024 were as follows:

	Balance June 30, 2023	Additions	Transfers	Deletions	Balance June 30, 2024
Capital assets not being depreciated:					
Land and easements	\$ 9,806,137	\$ 234,295	\$ 78,335	\$ -	\$ 10,118,767
Construction in progress	23,053,147	33,478,003	(21,153,766)	(1,125,158)	34,252,226
Total capital assets, not being depreciated	32,859,284	33,712,298	(21,075,431)	(1,125,158)	44,370,993
Capital assets being depreciated and amortized:					
Intangibles	3,748,666	-	-	(1,805,777)	1,942,889
Right-to-use - SBITA subscriptions	270,813	280,764	-	-	551,577
Collection plant	213,618,280	4,892,350	1,619,606	(431,451)	219,698,785
Pumping plant	32,669,060	-	5,322,612	(808,357)	37,183,315
Treatment plant	251,054,358	-	12,819,061	(2,008,987)	261,864,432
General plant	35,656,025	-	1,314,152	(404,247)	36,565,930
Total capital assets being depreciated and amortized	537,017,202	5,173,114	21,075,431	(5,458,819)	557,806,928
Less accumulated depreciation and amortization for:					
Intangibles	(3,718,256)	(8,585)	-	1,805,777	(1,921,064)
Right-to-use - SBITA subscriptions	(24,803)	(102,497)	-	-	(127,300)
Collection plant	(113,390,854)	(5,332,362)	-	422,086	(118,301,130)
Pumping plant	(25,299,248)	(939,221)	-	708,209	(25,530,260)
Treatment plant	(183,222,816)	(5,880,818)	-	1,989,588	(187,114,046)
General plant	(19,010,200)	(2,172,234)	-	392,508	(20,789,926)
Total accumulated depreciation and amortization	(344,666,177)	(14,435,717)	-	5,318,168	(353,783,726)
Total capital assets being depreciated and amortized, net	192,351,025	(9,262,603)	21,075,431	(140,651)	204,023,202
Total capital assets, net	\$ 225,210,309	\$ 24,449,695	\$ -	\$ (1,265,809)	\$ 248,394,195

Depreciation and amortization expense for the year ended June 30, 2024 totaled \$14,435,717.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

6. Capital Assets (Continued)

Changes in capital assets for the year ended June 30, 2023 were as follows:

	Balance June 30, 2022	Additions	Cost Adjustments ⁽¹⁾	Transfers	Deletions	Balance June 30, 2023
Capital assets not being depreciated:						
Land and easements	\$ 9,692,308	\$ -	\$ -	\$ 113,829	\$ -	\$ 9,806,137
Construction in progress	8,475,695	17,011,949	1,108,131	(3,363,178)	(179,450)	23,053,147
Total capital assets, not being depreciated	18,168,003	17,011,949	1,108,131	(3,249,349)	(179,450)	32,859,284
Capital assets being depreciated and amortized:						
Intangibles	3,748,666	-	-	-	-	3,748,666
Right-to-use - SBITA subscriptions	-	188,319	-	82,494	-	270,813
Right-to-use - Lease equipment	17,422	-	(1,033)	-	(16,389)	-
Collection plant	209,901,228	2,760,563	-	1,025,097	(68,608)	213,618,280
Pumping plant	32,864,327	-	(41,258)	-	(154,009)	32,669,060
Treatment plant	251,867,921	-	(1,015,169)	201,606	-	251,054,358
General plant	34,104,412	-	(51,704)	1,940,152	(336,835)	35,656,025
Total capital assets being depreciated and amortized	532,503,976	2,948,882	(1,109,164)	3,249,349	(575,841)	537,017,202
Less accumulated depreciation and amortization for:						
Intangibles	(3,709,671)	(8,585)	-	-	-	(3,718,256)
Right-to-use - SBITA subscriptions	-	(24,803)	-	-	-	(24,803)
Right-to-use - Lease equipment	(11,834)	(4,555)	-	-	16,389	-
Collection plant	(106,925,334)	(6,525,008)	-	-	59,488	(113,390,854)
Pumping plant	(23,531,324)	(1,895,818)	-	-	127,894	(25,299,248)
Treatment plant	(176,909,180)	(6,313,636)	-	-	-	(183,222,816)
General plant	(17,183,577)	(2,163,457)	-	-	336,834	(19,010,200)
Total accumulated depreciation and amortization	(328,270,920)	(16,935,862)	-	-	540,605	(344,666,177)
Total capital assets being depreciated and amortized, net	204,233,056	(13,986,980)	(1,109,164)	3,249,349	(35,236)	192,351,025
Total capital assets, net	\$ 222,401,059	\$ 3,024,969	\$ (1,033)	\$ -	\$ (214,686)	\$ 225,210,309

Depreciation and amortization expense for the year ended June 30, 2023 totaled \$16,935,862.

⁽¹⁾ Cost adjustments are related to capital project incentives and rebates received during FY 2023 which reduced the cost of existing assets.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

7. Contracts Receivable

On September 18, 2020, WES entered into a purchase and sale agreement with a private developer which provided for the sale of the majority of the former Blue Heron property with WES retaining a 2.2 acre parcel of the property for future use. In consideration for the property, WES received a note for a base purchase price of \$2.0 million with a maturity date of October 1, 2030. Interest will accrue on the base principal at the rate of 1.0% per annum until the note is fully paid. Per the terms of the note, the final principal amount will be determined by the date of the payment; it may be adjusted to as high as \$8.0 million subject to development up-zoning or to as low as \$500,000 subject to the buyer incurring excess environmental cleanup costs. As of June 30, 2024 and 2023, none of the conditions required for the principal to adjust have occurred and the note has been recorded at the base purchase price of \$2.0 million. The note had accrued interest of \$75,616 at June 30, 2024, and \$55,616 at June 30, 2023; this interest is included in the accounts receivable balance in the Statements of Net Position.

On October 12, 2023, WES entered into a subordination agreement related to the \$2.0 million note. Under the terms of the agreement, WES' lien on the property is subordinate to a new \$2.0 million loan provided to a private developer. This arrangement was made to support the ongoing development of the property, and aligns with the original promissory note's terms, whereby WES agreed to subordinate its lien to subsequent loans. These subsequent loans are capped at an amount not to exceed the greater of \$10.0 million or 85% of the property's completed appraised value.

8. Loans Payable

The following amounts represent obligations for state revolving fund loans from the DEQ which were used for the construction of capital assets and are payable in 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 FY 2013-14.

In November 2018, WES entered into a loan agreement with the State of Oregon via DEQ for Clean Water State Revolving Loan R95030 in the amount of \$37,000,000 at 2.14% interest to finance construction of the Tri-City Solids Handling Improvement project. The project was completed in FY 2021-22. In October 2022, WES signed an amendment to the loan agreement which reduced the interest rate from 2.14% to a promotional rate of 1.0%. Loan payments commenced in FY 2022-23 and are payable in semi-annual installments of principal and interest over 20 years.

In September 2020, WES entered into a loan agreement with the State of Oregon via DEQ for Sponsorship Option Loan R95031 to finance the design phase of the Three Creeks Floodplain Enhancement project. The total amount of the loan is \$1,450,000 at 1.38% interest, with a promotional interest rate to be calculated upon completion of the project. As of June 30, 2024, loan disbursements of \$826,379 have been received. At June 30, 2023, loan disbursements of \$530,111 had been received. Loan payments, in semi-annual installments of principal and interest over 20 years will commence following completion of the project's design, which is estimated to occur in December 2024.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

8. Loans Payable (Continued)

Similar to its bond covenants for outstanding revenue obligations (see below), WES has irrevocably pledged its net operating revenues towards payment of loans R06224, R95030, and R95031. 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 user charge revenues and contain certain financial covenants. As of June 30, 2024 and June 30, 2023, management believes WES was in compliance with these covenants.

Changes in loans payable for the year ended June 30, 2024 are as follows:

	Interest Rates	Outstanding June 30, 2023	Increases	Decreases	Outstanding June 30, 2024	Current Portion
Revolving Loan R06224	0.00%	\$ 1,008,991	\$ -	\$ (106,208)	\$ 902,783	\$ 106,208
Revolving Loan R95030	1.00%	36,138,415	-	(1,736,115)	34,402,300	1,753,519
Revolving Loan R95031	1.38%	530,111	296,268	-	826,379	-
		<u>\$ 37,677,517</u>	<u>\$ 296,268</u>	<u>\$ (1,842,323)</u>	<u>\$ 36,131,462</u>	<u>\$ 1,859,727</u>

Changes in loans payable for the year ended June 30, 2023 are as follows:

	Interest Rates	Outstanding June 30, 2022	Increases	Decreases	Outstanding June 30, 2023	Current Portion
Revolving Loan R06224	0.00%	\$ 1,115,199	\$ -	\$ (106,208)	\$ 1,008,991	\$ 106,208
Revolving Loan R95030	1.00%	34,885,384	2,114,616	(861,585)	36,138,415	1,736,115
Revolving Loan R95031	1.38%	-	530,111	-	530,111	-
		<u>\$ 36,000,583</u>	<u>\$ 2,644,727</u>	<u>\$ (967,793)</u>	<u>\$ 37,677,517</u>	<u>\$ 1,842,323</u>

Future maturities of revolving loans are as follows ⁽¹⁾:

Fiscal Year	Principal	Interest/Admin. Fees	Total
2025	\$ 1,859,727	\$ 511,538	\$ 2,371,265
2026	1,877,307	484,615	2,361,922
2027	1,895,063	457,428	2,352,491
2028	1,912,996	429,975	2,342,971
2029	1,931,109	402,252	2,333,361
2030-2034	9,774,360	1,586,311	11,360,671
2035-2039	9,883,469	861,248	10,744,717
2040-2042	6,171,052	154,970	6,326,022
	<u>\$ 35,305,083</u>	<u>\$ 4,888,337</u>	<u>\$ 40,193,420</u>

⁽¹⁾ Loan R95031 is excluded from the future maturities schedule, as its repayment schedule will be determined upon project completion when the final loan amount is established.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

9. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2024, are as follows:

	Interest Rates	Outstanding June 30, 2023	Increases	Decreases	Outstanding June 30, 2024	Current Portion
Revenue Obligations - 2016	2.000% - 5.000%	\$ 68,610,000	\$ -	\$ (4,705,000)	\$ 63,905,000	\$ 4,945,000
Revenue Obligations - 2021	2.000% - 5.000%	35,765,000	-	(2,280,000)	33,485,000	2,395,000
		<u>\$ 104,375,000</u>	<u>\$ -</u>	<u>\$ (6,985,000)</u>	<u>\$ 97,390,000</u>	<u>\$ 7,340,000</u>

Changes in long-term debt for the year ended June 30, 2023, are as follows:

	Interest Rates	Outstanding June 30, 2022	Increases	Decreases	Outstanding June 30, 2023	Current Portion
Revenue Obligations - 2016	2.000% - 5.000%	\$ 72,955,000	\$ -	\$ (4,345,000)	\$ 68,610,000	\$ 4,705,000
Revenue Obligations - 2021	2.000% - 5.000%	37,935,000	-	(2,170,000)	35,765,000	2,280,000
		<u>\$ 110,890,000</u>	<u>\$ -</u>	<u>\$ (6,515,000)</u>	<u>\$ 104,375,000</u>	<u>\$ 6,985,000</u>

Changes in premiums for the year ended June 30, 2024, are as follows:

	Balance June 30, 2023	Increases	Decreases	Balance June 30, 2024
Revenue Obligations - 2016 Premium	\$ 6,840,023	\$ -	\$ (526,156)	\$ 6,313,867
Revenue Obligations - 2021 Premium	7,041,029	-	(586,752)	6,454,277
	<u>\$ 13,881,052</u>	<u>\$ -</u>	<u>\$ (1,112,908)</u>	<u>\$ 12,768,144</u>

Changes in premiums for the year ended June 30, 2023, are as follows:

	Balance June 30, 2022	Increases	Decreases	Balance June 30, 2023
Revenue Obligations - 2016 Premium	\$ 7,366,179	\$ -	\$ (526,156)	\$ 6,840,023
Revenue Obligations - 2021 Premium	7,627,782	-	(586,753)	7,041,029
	<u>\$ 14,993,961</u>	<u>\$ -</u>	<u>\$ (1,112,909)</u>	<u>\$ 13,881,052</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.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

9. Long-Term Debt (Continued)

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

	2024	2023
Current maturities - face value	\$ 7,340,000	\$ 6,985,000
	\$ 7,340,000	\$ 6,985,000
Future maturities - face value	\$ 90,050,000	\$ 97,390,000
Premium	12,768,144	13,881,052
	\$ 102,818,144	\$ 111,271,052

Revenue Obligations 2016 and 2021

Revenue obligations are payable from monthly sewer fees collected from customers connected to and benefited by the system. In August of 2016, revenue obligations series 2016 were issued in the amount of \$83,250,000, with an all-in interest rate of 2.2% and coupon interest rates ranging from 2.0% to 5.0%. 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 statements of net position.

In February of 2021, revenue obligations series 2021 were issued in the amount of \$40,000,000 with coupon interest rates ranging from 2.0% to 5.0%. The net proceeds of \$48,687,948 (including a \$8,801,286 premium and after payment of \$113,338 in underwriting fees and other issuance costs) are being used to finance capital projects and fund a debt service reserve for the obligations to realize a true interest cost of 0.84%.

Maturities of 2016 bond principal at June 30, 2024 are as follows:

Fiscal Year	Principal	Interest
2025	\$ 4,945,000	\$ 1,956,506
2026	5,200,000	1,702,881
2027	5,470,000	1,436,132
2028	5,720,000	1,184,981
2029	5,925,000	981,706
2030-2034	31,125,000	2,719,928
2035-2036	5,520,000	110,250
	\$ 63,905,000	\$ 10,092,384

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

9. Long-Term Debt (Continued)

Revenue Obligations 2016 and 2021 (Continued)

Maturities of 2021 bond principal at June 30, 2024 are as follows:

Fiscal Year	Principal	Interest
2025	\$ 2,395,000	\$ 1,288,250
2026	2,515,000	1,168,500
2027	2,640,000	1,042,750
2028	2,770,000	910,750
2029	2,910,000	772,250
2030-2034	16,645,000	1,769,650
2035-2036	3,610,000	72,200
	<u>\$ 33,485,000</u>	<u>\$ 7,024,350</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 (20.0%) 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 years ended June 30, 2024 and June 30, 2023.

At June 30, 2024, 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, 2024 Revenue ⁽¹⁾	For the Year Ended June 30, 2024 Debt (P&I) Payments
State Loan R06224	Sewer Assessments	2033	\$ 902,783	\$ 32,961,251	\$ 110,987
State Loan R95030	Sewer Fees	2042	34,402,300	-	2,074,993
State Loan R95031 ⁽²⁾	Surface Water Fees	-	-	-	-
Revenue Obligations 2016	Sewer Fees	2036	63,905,000	-	6,902,756
Revenue Obligations 2021	Sewer Fees	2035	33,485,000	-	3,682,250
Total			<u>\$ 132,695,083</u>	<u>\$ 32,961,251</u>	<u>\$ 12,770,986</u>

(1) Same net revenue source pledged for multiple purposes. Total Gross Revenues of \$62,930,174 less Total Operating Expenses of \$29,968,923.

(2) Future Pledged Revenue Debt Outstanding is not shown for State Loan R95031 as the final loan amount and payment schedule will not be finalized until project completion, estimated to occur in FY 2024-25.

10. Subscription Liabilities

WES has commitments to various subscription-based IT arrangements (SBITAs). At June 30, 2024, WES has four qualifying SBITAs under GASB 96 in which it is acting as subscriber.

On July 1, 2022, WES entered into a 120-month subscription for the use of data management software. The initial subscription liability was recorded at \$51,636, and an initial subscription asset was recorded at \$134,130, including \$82,494 in capitalizable implementation costs. The subscription carries an interest rate of 2.6570%, with annual fixed payments of \$5,820. As of June 30, 2024 and 2023, the value of the subscription liability is \$41,452 and \$46,049, respectively.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

10. Subscription Liabilities (Continued)

On April 1, 2023, WES entered into a 36-month subscription for the use of Wonderware software. The initial subscription liability was recorded at \$136,683, and the initial subscription asset was recorded at the same amount. The subscription has an interest rate of 2.5820%, with annual payments starting at \$45,376, increasing by 3% each year. As of June 30, 2024 and 2023, the value of the subscription liability is \$46,927 and \$91,307, respectively.

On July 1, 2023, WES entered into a 60-month subscription for the use of OptiRTC software. The initial subscription liability was recorded at \$101,382, and the initial subscription asset was recorded at the same amount. The subscription has an interest rate of 2.6560%, with annual payments starting at \$19,500, increasing by 5% each year. As of June 30, 2024, the value of the subscription liability is \$82,556.

On October 3, 2023, WES entered into a 68-month subscription for the use of Lucy software. The initial subscription liability was recorded at \$179,382, and the initial subscription asset was recorded at the same amount. The subscription has an interest rate of 3.6870%, with annual payments starting at \$28,748, increasing by 5% each year. As of June 30, 2024, the value of the subscription liability is \$150,781.

Changes in subscription liabilities for the year ended June 30, 2024, are as follows:

	Interest Rates	Outstanding June 30, 2023	Increases	Decreases	Outstanding June 30, 2024	Current Portion
Data management software	2.6570%	\$ 46,049	\$ -	\$ (4,597)	\$ 41,452	\$ 4,719
Wonderware software	2.5820%	91,307	-	(44,380)	46,927	46,927
OptiRTC software	2.6560%	-	101,382	(18,826)	82,556	18,282
Lucy software	3.6870%	-	179,382	(28,601)	150,781	26,170
		<u>\$ 137,356</u>	<u>\$ 280,764</u>	<u>\$ (96,404)</u>	<u>\$ 321,716</u>	<u>\$ 96,098</u>

Changes in subscription liabilities for the year ended June 30, 2023, are as follows:

	Interest Rates	Outstanding June 30, 2022	Increases	Decreases	Outstanding June 30, 2023	Current Portion
Data management software	2.6570%	\$ -	\$ 51,636	\$ (5,587)	\$ 46,049	\$ 4,596
Wonderware software	2.5820%	-	136,683	(45,376)	91,307	44,380
		<u>\$ -</u>	<u>\$ 188,319</u>	<u>\$ (50,963)</u>	<u>\$ 137,356</u>	<u>\$ 48,976</u>

Future minimum payments for subscription liabilities as of June 30, 2024 are as follows:

Fiscal Year	Principal	Interest	Total
2025	\$ 96,098	\$ 8,521	\$ 104,619
2026	51,736	7,278	59,014
2027	56,049	5,624	61,673
2028	60,636	3,829	64,465
2029	40,625	1,884	42,509
2030-2032	16,572	888	17,460
	<u>\$ 321,716</u>	<u>\$ 28,024</u>	<u>\$ 349,740</u>

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

11. Arbitrage Rebate Payable

WES is subject to the Internal Revenue Code’s arbitrage rebate requirements related to tax-exempt bonds issued after 1986. Arbitrage rebate represents the excess investment earnings on bond proceeds that are required to be rebated to the federal government. These provisions generally require WES to calculate the rebate liability every five years and remit any rebate due.

As of June 30, 2024, WES has recognized an arbitrage rebate liability of \$1,285,049. As of June 30, 2023, no arbitrage rebate liability was recognized. The accrued liability is recorded as Arbitrage rebate payable in the Statements of Net Position and will be remitted to the federal government in accordance with rebate requirements.

12. 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 system development charges.
- The cities will collect and remit a contractual percentage of system development 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 during the years ended June 30:

	2024	2023
Sanitary Sewer user charges	\$ 16,029,545	\$ 15,274,838
Connection charges	1,874,990	4,313,332
Pump station maintenance charges	5,802	12,089
	\$ 17,910,337	\$ 19,600,259

In August 2022, WES entered into an agreement with the city of Gladstone to rehabilitate a pump station owned by the city as part of a larger rehabilitation project including several pump stations owned by WES. Under the terms of the agreement, WES will manage the rehabilitation project, and the city is responsible for reimbursing WES for work related to the city’s pump station. The estimated full cost of work reimbursable by the city for this project over the approximately 3-year agreement term is \$728,075. During FY 2023-24 and FY 2022-23, WES invoiced the city for reimbursable project expenses of \$15,687 and \$21,437, respectively.

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

12. Commitments (Continued)

Good Neighbor Intergovernmental Agreements

During FY 2019-20, 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 Water Resource Recovery Facility (WRRF) in their communities. The annual payments related to this agreement totaled \$250,000 for both FY 2023-24 and FY 2022-23.

In January 2023, WES entered into a Good Neighbor agreement with the city of Milwaukie to fund neighborhood enhancement projects relating to the hosting of the Kellogg Creek Water Resource Recovery Facility in the city. Total payments related to this agreement in FY 2023-24 and FY 2022-23 were \$142,762 and \$404,647, respectively.

Regional Inflow and Infiltration Reduction Intergovernmental Agreements

In January 2022, WES entered into a “Regional Inflow and Infiltration (I&I) Reduction” agreement with the city of Johnson City. In March 2022, the cities of Gladstone, Happy Valley, Milwaukie, and Oregon City joined the agreement. This agreement is intended to reduce inflow and infiltration in the cities’ wastewater collection systems, which will reduce the need for additional treatment and collection capacity in WES’ systems, resulting in substantial future cost savings for WES.

Under the terms of the agreement, WES reimburses its partner cities for thirty-three percent of approved joint project costs by constructing infrastructure for I&I reduction projects within the cities’ collection systems. Upon completion, the infrastructure constructed by WES is donated to the cities.

In FY 2023-24, WES completed and donated \$1,098,454 of infrastructure to partner cities under this agreement. Total costs related to this agreement in FY 2023-24 and FY 2022-23 were \$2,169,533 and \$1,439,871, respectively.

Cooperative Utility Intergovernmental Agreement

In November 2021, WES entered a Cooperative Improvement (Utility) Agreement with Oregon Department of Transportation (ODOT) for construction of a new sewer force main in conjunction with ODOT’s expansion of the Abernethy Bridge in Oregon City. Per the terms of the agreement, WES made an advance deposit of \$9.26 million during FY 2021-22 to cover the estimated project costs.

As of June 30, 2024, WES has recorded an expense and corresponding liability of \$1.9 million for work completed on the project during FY 2023-24. No draws were made against the deposit during FY 2023-24 or FY 2022-23. In accordance with the agreement, draws will only be made upon the completion of the sewer force main construction. ODOT will construct the sewer force main at the appropriate time in sequence with other bridge improvements.

WES is committed under contractual agreements for various multi-year contracts related to capital acquisition and service agreements. The total contract costs are approximately \$138.4 million. As of June 30, 2024, approximately \$84.0 million of these contracts remain outstanding.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

13. 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 FYs 2023-24 and 2022-23, 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 2024 and 2023, charged by the above departments, totaled \$18,976,030 and \$16,804,906, respectively.

In February 2024, WES entered into an intergovernmental agreement with the Clackamas County Development Agency (“the Agency”) for the design and construction of a sanitary sewer force main replacement as part of the Agency’s Monroe Street Improvements Project. The inclusion of this work in the Monroe Street Improvements Project will allow WES to avoid future disruptions to newly completed roadway improvements. The total value of the agreement is \$209,740, with the project expected to be completed by December 31, 2025. Total costs related to this agreement in FY 2023-24 were \$52,650.

At June 30, related-party balances consist of:

	Receivable		Payable	
	2024	2023	2024	2023
Clackamas County *	\$ 280,711	\$ 121,493	\$ 464,627	\$ 1,359,519
Clackamas County - Contract labor payable	-	-	1,105,423	909,497
	\$ 280,711	\$ 121,493	\$ 1,570,050	\$ 2,269,016

* From the Statements of Net Position, the related-party receivable for Clackamas County reflects a subset of the Accounts Receivable balance.

14. Litigation

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2024 and 2023

15. 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 self-insurance program where not commercially insured. All employees of WES are contracted from the County. WES makes payments where applicable 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 from the County's self-insurance program have exceeded insurance coverage levels, and there has been no significant reduction in coverage.

16. 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 Tri-City Water Resource Recovery Facility (TCWRRF) that 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.

17. Reclassifications

During FY 2023-24, the Advance Deposit for Capital Projects related to the Cooperative Utility Intergovernmental Agreement with ODOT was reclassified from a current asset to a noncurrent asset. This reclassification reflects an updated project timeline, with completion now expected in FY 2025-26, and draws against the advance deposit anticipated to occur only at project completion. At the end of FY 2022-23, the asset was classified as current based on management's then-current expectation that it would be realized within the next fiscal year. This reclassification was applied prospectively, with prior period comparative figures left unchanged. The reclassification does not affect prior or current period net position but provides a more accurate reflection of the asset's anticipated use based on the latest project information.

18. Subsequent Events

On September 19, 2024, WES entered into a \$15.5 million contract for construction of a 30-inch force main as part of the Intertie 2 Pump Station Expansion project. This commitment was anticipated in WES' capital improvement plan and will be financed with existing construction reserves.

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

Fund Descriptions

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.

Debt Service Fund

The Debt Service Fund accounts for redemption of revenue bonds and interest thereon, as well as payment of the Department of Environmental Quality loans. The primary resources are transfers of user charges and system development charges 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, 2024
(with comparative totals for the year ended June 30, 2023)

	2024			
	Original And Final Budget	Actual	Variance with Final Budget	2023 Actual
REVENUES:				
Sanitary Sewer user charges	\$ 43,521,300	\$ 44,134,485	\$ 613,185	\$ 42,256,191
Fees - collected for other agencies ⁽¹⁾	808,700	819,577	10,877	761,596
System development charges	175,000	203,690	28,690	25,050
Special assessment collections	5,000	7,574	2,574	9,452
Interest on investments	152,100	515,922	363,822	332,905
Miscellaneous income	493,720	687,733	194,013	577,375
Total revenues	45,155,820	46,368,981	1,213,161	43,962,569
EXPENDITURES:				
Materials and services	25,177,626	24,101,064	1,076,562	22,564,628
Special payments	1,250,300	1,212,298	38,002	1,149,866
Contingency	4,196,000	-	4,196,000	-
Total expenditures	30,623,926	25,313,362	5,310,564	23,714,494
Revenues over expenditures	14,531,894	21,055,619	6,523,725	20,248,075
OTHER FINANCING USES:				
Transfers to other funds	(23,399,300)	(23,399,300)	-	(23,500,000)
Net change in fund balance	(8,867,406)	(2,343,681)	6,523,725	(3,251,925)
Fund balance - beginning	10,141,558	10,106,032	(35,526)	13,357,957
Fund balance - ending	<u>\$ 1,274,152</u>	<u>7,762,351</u>	<u>\$ 6,488,199</u>	<u>\$ 10,106,032</u>
Adjustment to GAAP basis:				
Connection charges receivable		192,958		
Capital assets (net of acc. depreciation and amortization)		221,276,996		
Lease receivable		99,231		
Interest receivable		86,296		
Assessments receivable		394,702		
Contracts receivable		2,000,000		
Subscription liabilities		(239,161)		
Interest payable		(5,233)		
Deferred inflows		(108,625)		
Investment valuation		(11,576)		
Net position - GAAP basis		<u>\$ 231,447,939</u>		

(1) In Fiscal Year 2024, this schedule was revised to separately present "Fees - collected for other agencies" from "Sanitary Sewer user charges" for FY 2023 data.

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, 2024
(with comparative totals for the year ended June 30, 2023)

	2024			2023 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
System development charges	\$ 7,141,100	\$ 4,191,045	\$ (2,950,055)	\$ 6,797,056
Interest on investments	765,300	1,699,836	934,536	760,688
Total revenues	7,906,400	5,890,881	(2,015,519)	7,557,744
EXPENDITURES:				
Capital outlay	450,000	270,630	179,370	170,367
Contingency	112,500	-	112,500	-
Total expenditures	562,500	270,630	291,870	170,367
Revenues over (under) expenditures	7,343,900	5,620,251	(1,723,649)	7,387,377
OTHER FINANCING USES:				
Transfers to other funds	(7,078,451)	(7,078,451)	-	(6,263,894)
Net change in fund balance	265,449	(1,458,200)	(1,723,649)	1,123,483
Fund balance - beginning	51,022,693	52,339,171	1,316,478	51,215,688
Fund balance - ending	\$ 51,288,142	50,880,971	\$ (407,171)	\$ 52,339,171
Adjustment to GAAP basis:				
Interest receivable		219,357		
Investment valuation		(121,072)		
Net position - GAAP basis		\$ 50,979,256		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2024
(with comparative totals for the year ended June 30, 2023)

	2024			
	Original And Final Budget	Actual	Variance with Final Budget	2023 Actual
REVENUES:				
Assessments collected	\$ 100,000	\$ 122,942	\$ 22,942	\$ 218,077
Interest on assessments	70,000	56,331	(13,669)	77,455
Interest on investments	103,800	219,318	115,518	142,435
Total revenues	273,800	398,591	124,791	437,967
EXPENDITURES:				
Principal	8,827,323	8,827,323	-	7,482,793
Interest	3,943,664	3,943,663	1	4,210,066
Total expenditures	12,770,987	12,770,986	1	11,692,859
Revenues over (under) expenditures	(12,497,187)	(12,372,395)	124,792	(11,254,892)
OTHER FINANCING SOURCES:				
Transfers from other funds	8,977,751	11,958,874	2,981,123	7,900,591
Net change in fund balance	(3,519,436)	(413,521)	3,105,915	(3,354,301)
Fund balance - beginning	6,917,600	6,941,816	24,216	10,296,117
Fund balance - ending	\$ 3,398,164	6,528,295	\$ 3,130,131	\$ 6,941,816
Adjustment to GAAP basis:				
Long-term contracts payable		(36,131,462)		
Long-term debt payable		(97,390,000)		
Capitalized bond premium		(12,768,144)		
Assessments receivable		1,688,556		
Interest receivable		27,798		
Interest payable		(395,373)		
Investment valuation		(15,343)		
Net position - GAAP basis		\$ (138,455,673)		

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, 2024
(with comparative totals for the year ended June 30, 2023)

	2024			
	Original And Final Budget	Actual	Variance with Final Budget	2023 Actual
REVENUES:				
Interest on investments	\$ 1,620,900	\$ 5,947,790	\$ 4,326,890	\$ 1,562,074
Capital contributions	-	44,146	44,146	1,046,111
Total revenues	1,620,900	5,991,936	4,371,036	2,608,185
EXPENDITURES:				
Capital outlay	49,278,927	32,265,963	17,012,964	16,265,138
Contingency	12,319,732	-	12,319,732	-
Total expenditures	61,598,659	32,265,963	29,332,696	16,265,138
Revenues over (under) expenditures	(59,977,759)	(26,274,027)	33,703,732	(13,656,953)
OTHER FINANCING SOURCES:				
Revenue from bonds and other debts	-	-	-	2,114,616
Transfers from other funds	21,500,000	18,518,877	(2,981,123)	21,863,302
Total other financing sources	21,500,000	18,518,877	(2,981,123)	23,977,918
Net change in fund balance	(38,477,759)	(7,755,150)	30,722,609	10,320,965
Fund balance - beginning	108,061,454	107,717,807	(343,647)	97,396,842
Fund balance - ending	\$ 69,583,695	99,962,657	\$ 30,378,962	\$ 107,717,807
Adjustment to GAAP basis:				
Arbitrage liability		(1,285,049)		
Interest receivable		431,360		
Investment valuation		(238,086)		
Net position - GAAP basis		\$ 98,870,882		

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, 2024
(with comparative totals for the year ended June 30, 2023)

	2024			
	Original And Final Budget	Actual	Variance with Final Budget	2023 Actual
REVENUES:				
Surface water user charges	\$ 6,476,300	\$ 6,440,253	\$ (36,047)	\$ 6,033,587
Interest on investments	73,300	199,457	126,157	95,231
Miscellaneous income	155,000	275,160	120,160	268,359
Total revenues	6,704,600	6,914,870	210,270	6,397,177
EXPENDITURES:				
Materials and services	5,908,081	4,756,366	1,151,715	4,508,085
Contingency	985,000	-	985,000	-
Total expenditures	6,893,081	4,756,366	2,136,715	4,508,085
Revenues over (under) expenditures	(188,481)	2,158,504	2,346,985	1,889,092
OTHER FINANCING USES:				
Transfers to other funds	(2,000,000)	(2,000,000)	-	(2,132,500)
Net change in fund balance	(2,188,481)	158,504	2,346,985	(243,408)
Fund balance - beginning	4,886,237	5,032,994	146,757	5,276,402
Fund balance - ending	\$ 2,697,756	5,191,498	\$ 2,493,742	\$ 5,032,994
Adjustment to GAAP basis:				
Capital assets (net of acc. depreciation and amortization)		27,117,199		
Interest receivable		20,230		
Interest payable		(1,644)		
Subscription liabilities		(82,555)		
Investment valuation		(11,166)		
Net position - GAAP basis		\$ 32,233,562		

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, 2024
(with comparative totals for the year ended June 30, 2023)

	2024			
	Original And Final Budget	Actual	Variance with Final Budget	2023 Actual
REVENUES:				
System development charges	\$ 126,300	\$ 56,700	\$ (69,600)	\$ 72,658
Interest on investments	40,900	93,781	52,881	40,656
Total revenues	167,200	150,481	(16,719)	113,314
EXPENDITURES:				
Total expenditures	-	-	-	-
Revenues over (under) expenditures	167,200	150,481	(16,719)	113,314
Net change in fund balance	167,200	150,481	(16,719)	113,314
Fund balance - beginning	2,726,201	2,733,465	7,264	2,620,151
Fund balance - ending	\$ 2,893,401	2,883,946	\$ (9,455)	\$ 2,733,465
Adjustment to GAAP basis:				
Interest receivable		12,465		
Investment valuation		(6,880)		
Net position - GAAP basis		\$ 2,889,531		

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, 2024
(with comparative totals for the year ended June 30, 2023)

	2024			
	Original And Final Budget	Actual	Variance with Final Budget	2023 Actual
REVENUES:				
Interest on investments	\$ 145,100	\$ 321,253	\$ 176,153	\$ 119,745
Federal grants	340,000	169,415	(170,585)	-
Total revenues	485,100	490,668	5,568	119,745
EXPENDITURES:				
Capital outlay	2,333,400	986,306	1,347,094	1,264,390
Contingency	1,166,700	-	1,166,700	-
Total expenditures	3,500,100	986,306	2,513,794	1,264,390
Revenues over (under) expenditures	(3,015,000)	(495,638)	2,519,362	(1,144,645)
OTHER FINANCING SOURCES:				
Revenue from bonds and other debts	685,900	296,268	(389,632)	530,111
Transfer from other funds	2,000,000	2,000,000	-	2,132,500
Total other financing sources	2,685,900	2,296,268	(389,632)	2,662,611
Net change in fund balance	(329,100)	1,800,630	2,129,730	1,517,966
Fund balance - beginning	9,672,603	9,482,588	(190,015)	7,964,622
Fund balance - ending	\$ 9,343,503	11,283,218	\$ 1,939,715	\$ 9,482,588
 Adjustment to GAAP basis:				
Interest receivable		49,350		
Investment valuation		(27,238)		
Net position - GAAP basis		\$ 11,305,330		

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
 SUMMARY OF NET POSITION
 BY FUND
 for the year ended June 30, 2024

Fund	Description	Net Position GAAP Basis
631	Sanitary Sewer Operating Fund	\$ 231,447,939
632	Sanitary Sewer System Development Charge Fund	50,979,256
635	Debt Service Fund	(138,455,673)
639	Sanitary Sewer Construction Fund	98,870,882
641	Surface Water Operating Fund	32,233,562
642	Surface Water System Development Charge Fund	2,889,531
649	Surface Water Construction Fund	11,305,330
	Total Net Position	\$ 289,270,827

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Statistical Section



STATISTICAL SECTION

This section provides further details as 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 FYs 2024 through FY 2018 statistics.

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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 derive from the Annual Comprehensive 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
2024	\$ 101,418,912	\$ 71,384,254	\$ 116,467,661	\$ 289,270,827
2023	96,288,720	70,513,588	102,027,614	268,829,922
2022	103,989,587	80,504,866	67,900,451	252,394,904
2021	112,167,501	59,023,367	65,860,833	237,051,701
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' Annual Comprehensive Financial Report

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

CHANGES IN NET POSITION
Last Ten Fiscal Years

	2024	2023	2022	2021 ⁽¹⁾	2020	2019	2018
Operating revenues:							
Sanitary Sewer user charges	\$ 44,134,485	\$ 42,256,191	\$ 40,803,347	\$ 40,379,418	\$ 38,869,238	\$ 36,790,480	\$ 8,542,389
Surface Water user charges	6,440,253	6,033,587	5,676,998	5,502,982	5,163,571	4,910,321	185,646
Intergovernmental revenues	-	-	-	-	-	-	375,145
Other operating revenues	1,717,243	1,513,312	1,120,103	987,048	1,361,246	1,007,099	285,617
Total operating revenues	52,291,981	49,803,090	47,600,448	46,869,448	45,394,055	42,707,900	9,388,797
Operating expenses:							
Contracted salaries and benefits	15,567,418	13,951,925	13,265,957	13,369,676	13,300,131	12,337,188	2,639,533
Professional services	1,701,241	2,103,735	2,119,084	1,559,926	2,135,318	1,181,977	408,852
Laboratory services	139,217	98,734	98,207	93,514	65,272	31,724	247,851
Other County services	3,408,612	2,852,981	2,717,765	3,046,288	2,879,695	2,897,557	606,616
Supplies	2,974,055	2,696,211	2,158,686	2,275,766	3,248,542	2,904,075	1,488,169
Vehicle expenses	957,806	864,843	885,459	930,344	791,322	815,631	181,037
Repairs and maintenance	1,214,286	1,094,346	1,019,710	958,052	579,479	960,286	88,552
Utilities	2,385,894	2,184,178	1,876,191	1,887,324	1,602,852	1,767,914	685,523
Insurance	529,474	464,209	480,045	394,858	439,037	404,918	163,480
Other expenses	1,090,920	1,265,867	1,305,430	1,729,112	815,143	849,742	173,503
Depreciation and amortization	14,435,717	16,935,862	16,576,384	20,664,890	20,031,956	20,082,869	2,571,997
Total operating expenses	44,404,640	44,512,891	42,502,918	46,909,750	45,888,747	44,233,881	9,255,113
Operating income (loss)	7,887,341	5,290,199	5,097,530	(40,302)	(494,692)	(1,525,981)	133,684
Nonoperating revenues (expenses):							
Interest income	6,377,148	4,749,033	895,174	1,080,151	1,762,557	1,806,268	189,261
Interest expense	(2,872,204)	(3,125,646)	(3,845,895)	(3,324,067)	(3,960,237)	(4,896,003)	-
Federal and state grants	926,533	-	41,796	216,180	173,504	-	-
Capital donations	(1,098,454)	-	-	-	-	-	-
Dispatchable power	-	-	11,300	11,300	69,100	69,100	-
Loss on disposal of capital assets	(167,148)	(133,895)	(564,227)	(440,983)	(197,017)	(45,338)	(4,761)
Total nonoperating revenues (expenses)	3,165,875	1,489,492	(3,461,852)	(2,457,419)	(2,152,093)	(3,065,973)	184,500
Income (loss) before contributions and special item	11,053,216	6,779,691	1,635,678	(2,497,721)	(2,646,785)	(4,591,954)	318,184
Contributions:							
Connection charges	4,261,045	6,894,764	11,394,422	8,326,178	10,520,618	5,346,829	827,629
Capital contributions	5,126,644	2,760,563	2,313,103	2,298,112	7,205,704	5,034,881	145,208
Total contributions	9,387,689	9,655,327	13,707,525	10,624,290	17,726,322	10,381,710	972,837
Special item:							
Gain on transfer of operations	-	-	-	-	-	155,565,171	-
Change in net position	\$ 20,440,905	\$ 16,435,018	\$ 15,343,203	\$ 8,126,569	\$ 15,079,537	\$ 161,354,927	\$ 1,291,021

⁽¹⁾ In FY 2022, the FY 2021 operation expenses presentation was revised for new chart of accounts classifications.

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

USER FEE REVENUE BY CUSTOMER TYPE
Last Ten Fiscal Years

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Sanitary Sewer user charges							
Cities	\$ 16,029,545	\$ 15,274,838	\$ 14,999,551	\$ 14,784,587	\$ 14,346,181	\$ 13,801,878	\$ 8,308,939
Residential	13,641,288	13,513,091	12,987,330	12,771,561	12,194,781	11,400,628	196,864
Commercial	3,791,236	3,322,921	3,071,685	3,472,927	3,427,806	3,312,205	28,522
Industrial	1,288,996	1,438,035	1,475,608	1,389,421	1,134,271	884,807	-
Other	9,383,420	8,707,306	8,269,173	7,960,922	7,766,199	7,390,962	8,064
Total Sanitary Sewer user charges	<u>\$ 44,134,485</u>	<u>\$ 42,256,191</u>	<u>\$ 40,803,347</u>	<u>\$ 40,379,418</u>	<u>\$ 38,869,238</u>	<u>\$ 36,790,480</u>	<u>\$ 8,542,389</u>
Surface Water user charges							
Residential	\$ 2,312,627	\$ 2,224,181	\$ 2,064,970	\$ 2,007,986	\$ 1,826,448	\$ 1,713,821	\$ 148,106
Commercial	3,736,890	3,419,295	3,232,796	3,131,932	2,987,651	2,854,696	-
Other	390,736	390,111	379,232	363,064	349,472	341,804	37,540
Total Surface Water user charges	<u>\$ 6,440,253</u>	<u>\$ 6,033,587</u>	<u>\$ 5,676,998</u>	<u>\$ 5,502,982</u>	<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

	2024	2023	2022	2021	2020	2019	2018
Sewer Rates per EDU ⁽¹⁾							
Residential Customers							
Rate Zone 1	\$ 42.80	\$ 40.75	\$ 38.80	\$ 38.25	\$ 36.40	\$ 33.25	\$ 32.00
Rate Zone 2	52.85	52.15	51.45	51.25	50.55	48.15	-
Wholesale Customers							
Rate Zone 1	\$ 27.90	\$ 26.55	\$ 25.30	\$ 24.95	\$ 23.75	\$ 23.00	\$ 22.15
Rate Zone 2	37.95	37.95	37.95	37.95	37.90	36.10	-
Surface Water Rates per ESU ⁽²⁾							
Rate Zone 2	\$ 8.65	\$ 8.15	\$ 7.75	\$ 7.65	\$ 7.30	\$ 6.95	\$ -
Rate Zone 3	5.20	4.95	4.70	4.65	4.45	4.25	4.10

⁽¹⁾ EDU - Equivalent Dwelling Unit; For monthly billing purposes, 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.

⁽²⁾ ESU - Equivalent Service Unit; 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

	2024	2023	2022	2021	2020	2019	2018
Sanitary Sewer							
Connection fee/EDU ⁽¹⁾							
Rate Zone 1	\$ 8,860	\$ 8,600	\$ 8,120	\$ 8,005	\$ 7,850	\$ 3,490	\$ 3,125
Rate Zone 2	8,860	8,600	8,120	8,005	7,850	7,615	7,330
Total Connection Revenue	\$ 4,204,345	\$ 6,822,106	\$ 11,256,111	\$ 8,158,439	\$ 10,359,524	\$ 5,206,286	\$ 827,629
Surface Water							
Connection fee/ESU ⁽²⁾							
Rate Zone 2	\$ 240	\$ 233	\$ 220	\$ 215	\$ 211	\$ 205	\$ -
Total Connection Revenue	\$ 56,700	\$ 72,658	\$ 138,311	\$ 167,739	\$ 161,094	\$ 140,543	\$ -

⁽¹⁾ EDU - Equivalent Dwelling Unit; a unit of measurement of sewer usage that is assumed to be equivalent to the usage of an average dwelling unit. For residential properties, EDUs are calculated based on the square footage of living area. For commercial properties, the calculation of EDUs is based on variables such as facility size, meter capacity, or business type.

⁽²⁾ ESU - Equivalent Service Unit; One ESU is equal to 2,500 square feet of impervious surface area. The number of ESUs attributable to a user's surface 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

Customer	2024		2023		2022		2021		2020		2019		2018 ⁽¹⁾	
	Revenue	Rank	Revenue	Rank	Revenue	Rank	Revenue	Rank	Revenue	Rank	Revenue	Rank	Revenue	Rank
City of Oregon City	\$ 5,465,347	1	\$ 5,143,239	2	\$ 5,149,204	1	\$ 4,985,657	2	\$ 4,776,650	2	\$ 4,621,023	2	\$ 4,313,782	1
City of Milwaukie	5,417,818	2	5,246,132	1	5,146,855	2	5,198,998	1	5,182,522	1	4,912,993	1		
City of West Linn	3,622,399	3	3,432,025	3	3,249,064	3	3,163,254	3	3,034,254	3	2,945,391	3	2,827,032	2
City of Gladstone	1,397,380	4	1,326,841	4	1,327,827	4	1,310,077	4	1,226,320	4	1,202,042	4	1,168,125	3
Precision Castparts	668,237	5	570,746	6	636,542	6	552,083	6	571,400	5	556,110	5		
Forum Clackamas Campus	650,504	6	788,390	5	851,298	5	752,005	5	442,326	6	277,008	7		
Kaiser Hospital	414,700	7	377,862	7	348,227	7	374,839	7	354,979	7	373,687	6		
Sun Country Village LLC	260,395	8	247,923	9	236,059	10	232,713	10	221,458	10				
Riverwalk Happy Valley Apartments	256,391	9	252,649	8	248,996	8	247,965	8	244,357	8	232,753	8		
GEPX Happy Valley LLC ⁽³⁾	250,881	10	246,920	10	243,124	9	242,063	9	238,351	9	227,029	9		
Crown Court Apartments	227,231	11	223,648	11	220,213	11	219,253	11	215,893	11	205,638	10		
Townhomes with a View Condo Assoc. ⁽²⁾	219,379	12	215,825	12	212,440	12	211,497	12	208,196	12	198,305	11		
Oak Acres Mobile Home Park	210,782	13	206,228	13	202,131	13	155,516	18	152,269	18	145,024	17		
Clackamas Trails Apartments	204,964	14	201,764	14	177,080	15	176,304	14	173,587	14	165,341	14		
Heirloom Investors LLC	193,211	15												
The Overlook at Causey Lane	189,894	16	186,745	15	183,761	14	182,932	13	180,029	13	171,476	13		
Causey Village Condos	188,948	17	185,826	16										
Clackamas Town Center	184,748	18	162,258	20			174,325	15	170,356	15	174,380	12		
Easton Ridge Apartments	179,273	19	176,399	17	173,655	16	172,889	16	170,210	16	162,124	15		
Riverbend Mobile Home Park	168,740	20	164,807	19	162,550	18								
Hawksridge Apartments			165,411	18	162,841	17	162,126	17	159,626	17	152,241	16		
CR Lake Crest Communities LLC					156,755	19								
Squire's Court Apartments					153,146	20	152,484	19	150,166	19	143,033	18		
Fred Meyer General Merchandise Office							140,802	20	134,636	20	133,963	19		
Stone Ridge Apartments											124,728	20		
Total	\$ 20,371,222		\$ 19,521,638		\$ 19,241,768		\$ 18,807,782		\$ 18,007,585		\$ 17,124,289		\$ 8,308,939	

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

⁽²⁾ In FY 2021, customer account name changed from The Woods Apartments to Townhomes with a View Condo Assoc.

⁽³⁾ In FY 2022, customer account name changed from Big Reflections OR LLC to GEPX Happy Valley LLC.

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	Subscriptions & Leases	Total	Percentage of Personal Income	Per Capita
2024	\$ 110,158,144	\$ 36,131,462	\$ 321,716	\$ 146,611,322	N/A %	\$ 738
2023	118,256,052	37,677,517	137,356	156,070,925	N/A	793
2022	125,883,961	36,000,583	4,843	161,889,387	1.14	836
2021	133,186,869	32,649,335	-	165,836,204	1.23	880
2020	89,433,491	20,999,100	-	110,432,591	0.92	598
2019	93,744,647	10,315,874	-	104,060,521	0.92	569
2018	-	-	-	-	-	-

N/A: Not available

Source: WES' Records

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

OVERLAPPING GENERAL OBLIGATION BONDED DEBT ⁽¹⁾
June 30, 2024

Governmental Unit	Debt Outstanding	Percent Overlapping	Overlapping General Obligation Bonded Debt
Debt repaid with property taxes			
City of Gladstone	\$ 7,002,830	80.35 %	\$ 5,626,774
City of Oregon City	11,420,000	99.12	11,319,504
City of West Linn	25,780,000	99.94	25,764,532
Clackamas Community College	117,601,792	20.52	24,131,888
Clackamas County	100,575,000	15.08	15,166,710
Clackamas County Education Service District	26,603,764	15.67	4,168,810
Clackamas County Rural Fire Protection District #1	21,642,113	15.13	3,274,452
Clackamas County School District #115 (Gladstone)	18,847,142	77.22	14,553,763
Clackamas County School District #12 (North Clackamas)	609,616,006	0.27	1,645,963
Clackamas County School District #3J (West Linn/Wilsonville)	463,502,321	44.01	203,987,371
Clackamas County School District #46 (Oregon Trail)	67,160,487	100.00	67,160,487
Clackamas County School District #62 (Oregon City)	258,697,607	57.96	149,941,133
Clackamas County School District #7J (Lake Oswego)	365,400,000	0.31	1,132,740
Clackamas Soil & Water Conservation	5,035,000	15.08	759,278
Metro	765,485,443	4.05	31,002,160
Mt Hood Community College	69,765,000	17.83	12,439,100
Multnomah County Education Service District	59,432,417	1.48	879,600
Multnomah County School District #28J (Centennial)	62,246,644	8.60	5,353,211
Portland Community College	617,155,000	0.02	123,431
Tualatin Valley Fire & Rescue District	48,930,000	5.57	2,725,401
Other Debt			
City of Oregon City	9,578,775	99.12	9,494,482
City of West Linn	11,245,000	99.94	11,238,253
Clackamas Community College	13,695,000	20.52	2,810,214
Clackamas County Rural Fire Protection District #1	7,740,000	15.13	1,171,062
Clackamas County School District #12 (North Clackamas)	1,031,233	0.27	2,784
Clackamas County School District #62 (Oregon City)	95,096	57.96	55,118
Metro	8,705,000	4.05	352,553
Mt. Hood Community College	26,465,000	17.83	4,718,710
Multnomah County Education Service District	16,245,000	1.48	240,426
Port of Portland	32,210,000	3.69	1,188,549
Portland Community College	35,655,000	0.02	7,131
Tualatin Valley Fire & Rescue District	4,830,000	5.57	269,031
Total overlapping debt	\$ 3,889,393,670		\$ 612,704,621

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

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Gross Revenues						
Monthly Service Charges	\$ 34,545,193	\$ 33,014,940	\$ 31,480,794	\$ 31,097,813	\$ 29,686,628	\$ 27,898,923
Operating Payment from Cities	16,029,545	15,274,838	14,999,551	14,784,587	14,346,181	13,801,878
Interest Earnings	6,377,148	4,749,033	895,174	1,080,151	1,762,557	1,806,268
Miscellaneous Income	1,717,243	1,513,312	1,120,103	987,048	1,361,246	1,007,099
Capital Charge Revenues	13,300	104,547	120,234	224,461	452,580	298,389
System Development Charges	4,247,745	6,790,217	11,274,188	8,101,717	10,044,368	4,888,525
Other Connection Charges	-	-	-	-	23,670	159,915
Total Gross Revenues	\$ 62,930,174	\$ 61,446,887	\$ 59,890,044	\$ 56,275,777	\$ 57,677,230	\$ 49,860,997
Operating Expenses						
Operations and Maintenance	29,968,923	27,577,029	25,926,534	26,244,860	25,856,791	24,151,012
Total Operating Expenses	29,968,923	27,577,029	25,926,534	26,244,860	25,856,791	24,151,012
Net Operating Revenues	\$ 32,961,251	\$ 33,869,858	\$ 33,963,510	\$ 30,030,917	\$ 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	-	-	-	856,800	870,000	887,500
Series 2016	6,902,756	6,769,006	6,760,756	5,911,257	4,426,006	3,256,231
Series 2021	3,682,250	3,680,750	3,679,000	434,883	-	-
Total Revenue Bond Debt Service	\$ 10,585,006	\$ 10,449,756	\$ 10,439,756	\$ 7,202,940	\$ 6,795,406	\$ 6,873,981
Revenue Bonds Debt Service Coverage	3.11	3.24	3.25	4.17	4.68	3.74
Revenue Bonds Coverage without SDCs	2.71	2.59	2.17	3.04	3.20	3.03
Revenues Available for State Revolving Fund Loans	\$ 22,376,245	\$ 23,420,102	\$ 23,523,754	\$ 22,827,977	\$ 25,025,033	\$ 18,836,004
State Revolving Fund Loan Debt Service						
R06224	110,987	111,518	112,050	112,581	106,208	106,208
R95030	2,074,993	1,131,585	728,979	500,000	-	-
Total State Revolving Loan Debt Service	\$ 2,185,980	\$ 1,243,103	\$ 841,029	\$ 612,581	\$ 106,208	\$ 106,208
Revenues Available for Other Purposes	\$ 20,190,265	\$ 22,176,999	\$ 22,682,725	\$ 22,215,396	\$ 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)
2024	198,620	N/A	N/A	3.7 %
2023	196,913	N/A	N/A	3.3
2022	193,677	\$ 14,163,405,333	\$ 73,129	3.3
2021	188,381	13,469,995,024	71,504	4.9
2020	184,648	11,963,528,568	64,791	11.2
2019	182,901	11,289,747,126	61,726	3.7
2018	80,045	4,691,277,360	58,608	3.7

N/A: Not available

⁽¹⁾ Figures are for calendar year; Personal Income and Per Capita Income for 2023 and 2024 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	2024			2015		
	Employees	Rank	Percentage of Total ⁽²⁾	Employees	Rank	Percentage of Total ⁽²⁾
Providence Health & Services	23,100	1	.02 %	15,239	3	.01 %
Intel Corp.	22,328	2	.02	17,500	1	.02
Oregon Health & Sciences University	19,603	3	.02	14,616	4	.01
Nike Inc.	15,522	4	.01	8,000	10	.01
Legacy Health	13,087	5	.01	10,436	7	.01
Kaiser Permanente	12,514	6	.01	11,881	6	.01
Fred Meyer	9,000	7	.01	10,237	8	.01
Portland Public Schools	7,111	8	.01			
City of Portland	6,753	9	.01	8,558	9	.01
Multnomah County	6,317	10	.00			
U.S. Federal Govt.				17,500	1	.02
State of Oregon				14,200	5	.01
Total	<u>135,335</u>		<u>0.12 %</u>	<u>128,167</u>		<u>0.12 %</u>

Sources:

⁽¹⁾ Statistics are the latest available data published in the Portland Business Journal *Book of Lists 2024* and *Book of Lists 2015*. 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

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Function							
Business Services	24.7	25.7	21.7	21.8	22.2	22.6	2.8
Capital Planning and Management	18.4	16.6	17.4	17.4	17.0	16.4	4.3
Environmental Services	18.2	19.3	20.5	19.4	19.4	19.6	2.5
Operations	<u>56.7</u>	<u>54.4</u>	<u>56.4</u>	<u>53.4</u>	<u>53.4</u>	<u>51.4</u>	<u>18.1</u>
Total	<u><u>118.0</u></u>	<u><u>116.0</u></u>	<u><u>116.0</u></u>	<u><u>112.0</u></u>	<u><u>112.0</u></u>	<u><u>110.0</u></u>	<u><u>27.7</u></u>

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 was 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

	2024	2023	2022	2021	2020	2019	2018
Sanitary Sewer							
Number of Treatment Plants	5	5	5	5	5	5	1
Number of Pump Stations	23	23	23	23	23	23	4
Miles of Pipe	362.90	360.37	358.38	356.95	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	11.90	11.90	11.90	11.90
System Demand - Current flows (in million gallons/day)	11.34	10.56	11.62	9.84	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	10.129	10.129	10.129	10.129	-
System Demand - Current flows (in million gallons/day)	6.79	6.74	7.12	6.40	5.65	6.09	-
Estimated Sanitary EDUs ⁽¹⁾	86,769	84,727	82,950	81,996	81,267	79,194	30,152
Number of New Connections	475	794	1,367	992	1,260	727	262
Surface Water							
Catch Basins / Manholes	19,155	19,168	19,001	17,648	16,188	15,626	260
Miles of Pipe	331.20	330.34	330.12	328.92	328.74	325.20	4.67
Estimated Surface Water ESUs ⁽²⁾	59,901	59,801	59,085	58,208	57,054	56,091	3,813

In Fiscal Years 2021 and 2023, this chart was revised for prior year data.

⁽¹⁾ EDU - Equivalent Dwelling Unit; Residential Sanitary Sewer EDUs equal one dwelling unit; Commercial Sanitary Sewer EDUs equal 1 EDU per 1,000 cubic feet or fraction thereof per month of metered water consumption.

⁽²⁾ ESU - Equivalent Service Unit; 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, which comprise the statement of net position as of June 30, 2024, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise WES' basic financial statements as listed in the table of contents, and have issued our report thereon dated November 20, 2024.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Moss Adams LLP".

Portland, Oregon
November 20, 2024

Report of Independent Auditors Required by Oregon State Regulations

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise WES' basic financial statements, and have issued our report thereon dated November 20, 2024.

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, and grant agreements, including provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules (OAR) 162-010-0000 to 162-010-0330, of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to, the following:

- Public fund deposits
- Indebtedness
- Budget
- Insurance and fidelity bonds
- Programs funded from outside sources
- Investments
- Public contracts and purchasing

In connection with our testing, nothing came to our attention that caused us to believe WES was not in substantial compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of ORS as specified in OAR 162-010-0000 through 162-010-0330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

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



Ashley Osten, Partner, for
Moss Adams LLP
Portland, Oregon
November 20, 2024

