



CLACKAMAS
WATER
ENVIRONMENT
SERVICES

ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the fiscal years ended June 30, 2021 and 2020

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, 2021 and 2020

Prepared by:
WATER ENVIRONMENT SERVICES
Financial Management Program

Chris Storey, Assistant Director
Erin Blue, Finance Manager

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

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(A Component Unit of Clackamas County, Oregon)

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Introductory Section



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

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

COMMISSIONERS AS OF JUNE 30, 2021

<u>Name</u>	<u>Term Expires</u>
Tootie Smith, Chair Public Services Building	December 31, 2024
Sonya Fischer, Commissioner Public Services Building	December 31, 2022
Paul Savas, Commissioner Public Services Building	December 31, 2022
Martha Schrader, Commissioner Public Services Building	December 31, 2024
Mark Shull, Commissioner Public Services Building	December 31, 2024

ADMINISTRATIVE OFFICES

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

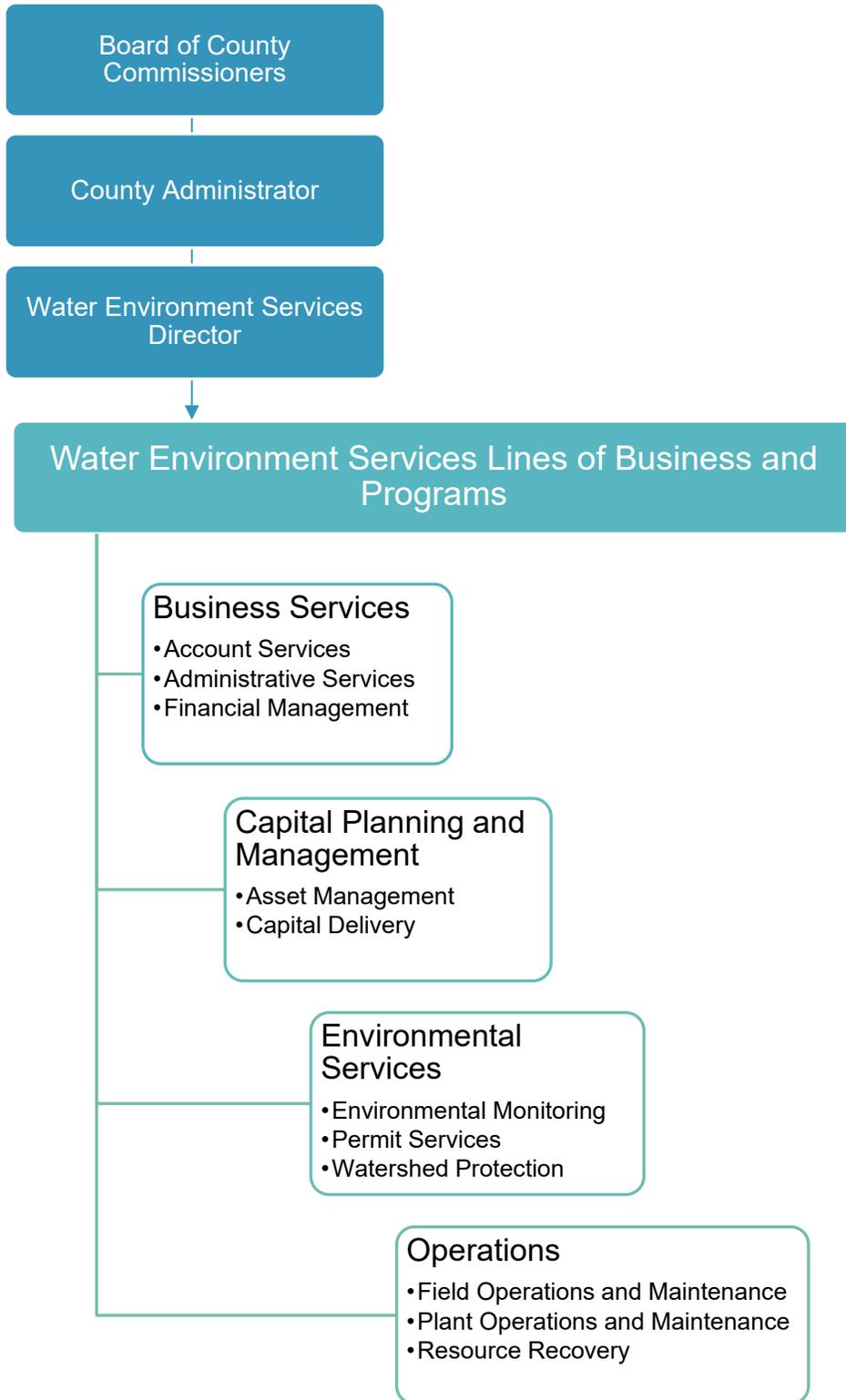
DISTRICT ADMINISTRATOR

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 2021





CLACKAMAS

**WATER
ENVIRONMENT
SERVICES**

GREGORY L. GEIST | DIRECTOR

Water Quality Protection
Surface Water Management
Wastewater Collection & Treatment

November 19, 2021

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, 2021, is submitted herewith. This report was prepared by the Financial Management Program of WES, in accordance with the financial reporting provisions of Oregon Revised Statutes (ORS) Sections 297.405 through 297.555. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentations, including all disclosures, rests with WES. We believe the data is accurate and complete in all material respects; that it is presented in a manner designed to present fairly the financial position, results of operations and cash flows of WES at June 30, 2021, and for the year then ended.

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

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

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

Water Environment Services

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 services). Each of CCSD No. 1, SWMACC and TCSD are separate legal entities organized under the provisions of ORS Chapter 451. This enabling legislation established County service districts as independent municipal corporations authorized to provide a specific service within specified boundaries. These entities decided to jointly partner in the delivery of services to customers by forming WES. On July 1, 2017, the assets and operations of TCSD and SWMACC were transferred into WES; CCSD No. 1 was transferred on July 1, 2018. WES functions as a single, combined entity formed by the three original districts. Prior to fiscal year (FY) 2018, each of these were separate legal entities and therefore audited financial statements were prepared for each. For fiscal year 2019 and moving forward, audited financial statement are being prepared for WES only.

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

The Agreement and related empowering bylaws establishes an advisory committee to advise WES on decisions regarding capital improvement programs, annual budgets, financial planning, and long-term financing plans for the entire partnership.

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

Relevant Financial Policies

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

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

Prospects for the Future

In August of 2016, ECONorthwest created an update of population projections for WES. Growth for 2017 - 2021 was projected to be 2.9% on an annual average. Experience of WES from 2016 – 2020 has been slightly less than these projections. Over the last fiscal year, WES is seeing growth approximately equal to the projected growth rate from the population forecast. These forecasts are being used in future capital and financial planning efforts, and WES intends to update the study in the current fiscal year.

WES is also undertaking significant planning exercises that will identify capital, regulatory and growth drivers through at least 2040 with additional analysis through 2070 and ensure that the utility can meet all relevant requirements. In addition, a surface water master plan is underway and will provide at least a 20 year infrastructure plan to meet applicable water quality standards, targeted to be completed in the next fiscal year.

WES has undertaken and anticipates continuing an aggressive wastewater capital construction program to meet growth demand, asset replacement needs and regulatory requirements. The revised and adopted current Capital Improvement Plan for FY 20-25 anticipates approximately \$222 million in capital investment during that five year period, and the plan is updated every fiscal year to reflect the latest information. The ability of WES to achieve that level of investment depends on several factors outside its control, including growth rates, regional economic factors, impacts from the pandemic, adequate personnel, and construction expertise. Insofar as factors are within WES' control, WES anticipates being able to complete the identified projects. These projects will serve growth through 2040.

In July of 2012, TCSD and CCSD No. 1 purchased the former Blue Heron property in West Linn, Oregon. The primary interest was in the existing Willamette River outfall and associated Clean Water Act discharge permit. This permit will address anticipated changes in the regulatory environment on the Willamette River, particularly with respect to temperature total maximum daily loads. The permit and outfall structure was purchased in conjunction with the property. The property was contributed to WES as part of the consolidation. On September 18, 2020, WES sold the majority of the acreage at the Blue Heron property to a private developer. The portion of land sold included the lagoons, regarding which there was a contingent remedial obligation. WES no longer has any remediation obligation with respect to the property, which was assigned and assumed by the purchaser along with the related Prospective Purchaser Agreement with the State of Oregon. Please refer to Note 6 on page 28 in the Notes to Basic Financial Statements for additional information.

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

Independent Audit

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

GFOA Distinguished Budget Presentation Award

WES received the GFOA's Distinguished Budget Presentation Award for its annual budget for the 2020-21 fiscal year. In order to qualify for the Distinguished Budget Presentation Award, the budget document must meet program criteria as a policy document, as a financial plan, as an operations guide, and as a communications device.

GFOA Certificate of Achievement for Excellence in Financial Reporting

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, 2020. 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.

Acknowledgments

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Greg Geist". The signature is written in a cursive style.

Greg Geist
Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Water Environment Services
Oregon**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morill

Executive Director/CEO

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Financial Section



Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise WES' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of WES as of June 30, 2021 and 2020, and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise WES' basic financial statements. The schedules of revenues and expenditures – budget and actual and summary of net position by fund on pages 37 through 46 (collectively, the supplementary information), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Information

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

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

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2021 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 issued our report dated November 19, 2021 on our consideration of WES' compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Ashley Oster, Partner
for Moss Adams LLP
Portland, Oregon
November 19, 2021

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2021

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, 2021. 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 and deferred outflows of resources exceeded its liabilities and deferred inflows of resources (net position) at the close of the fiscal year by \$237,052. This amount reflects an increase of \$8,127 or 3.6% from 2020 and \$23,206 or 10.9% since 2019. For the fiscal year ended June 30, 2021, total net position of \$237,052 includes unrestricted net position of \$65,861 that may be used to meet our ongoing obligations of providing retail and wholesale sanitary sewer services and retail surface water services.
- WES' total assets and deferred outflows of resources increased to \$411,497 in FY 2021 from \$347,501 in FY 2020 and were \$325,460 in FY 2019. The change from FY 2020 includes an increase in current pooled cash and investments, restricted of \$48,711, a decrease in land, easements and construction in progress of \$54,519, an increase in plant and equipment, net of \$51,240, an increase in pooled cash and investments (restricted) of \$16,565, and a decrease in deferred charges on debt refunding of \$544.
- Total liabilities increased by \$55,869 to \$174,445 in FY 2021 and by \$6,962 to \$118,576 in FY 2020 from FY 2019. The increase in FY 2021 was primarily the result of an increase in long term debt, net of current portion, payable from restricted assets of \$41,498 and in long term contracts, net of current portion of \$11,650.
- Total net position increased \$8,127 due to a \$7,832 increase in the portion restricted for capital projects and an \$8,638 increase in the portion restricted for debt service. The overall increase was partially offset by a \$10,556 decrease in net investment in capital assets. Total net position increased \$15,079 in FY 2020 from FY 2019.
- Total operating revenues increased by \$1,475 over FY 2020 and total operating expenses increased by \$1,021. Professional services decreased by \$147, other County services increased by \$167, supplies decreased by \$214, repairs and maintenance increased by \$200, utilities increased by \$284 and depreciation and amortization increased by \$633. These combined changes resulted in a decrease in the operating loss of \$454. From FY 2019 to FY 2020, total operating revenues increased by \$2,686 and total operating expenses increased by \$1,655.
- In FY 2021 nonoperating expense increased by \$305 from FY 2020. A decrease in interest income of \$683 and an increase in loss on disposal of capital assets of \$244 were partially offset by a decrease in interest expense of \$636.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Overview of the Financial Statements

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

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

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

The Statements of Cash Flows are an analysis of the change in WES' cash balance during the fiscal year. They are divided into four components: 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 contain information relating to WES' operations and can be found on pages 14 through 17 of this report. Sanitary sewer operations are provided at five water resource recovery facilities located throughout the state of Oregon: the Kellogg Water Resource Recovery Facility in Milwaukie, the Tri-City Water Resource Recovery Facility in Oregon City, the Hoodland Water Resource Recovery Facility in Brightwood, the Boring Water Resource Recovery Facility in Boring, and the Fischer's Forest Park Water Resource Recovery Facility in Oregon City. These sites serve the cities of Gladstone, Happy Valley, Milwaukie, Oregon City, West Linn, the unincorporated portions of North Clackamas County, and the communities of Boring, the Hoodland corridor and Fischer's Forest Park near Redland. Surface water management services are provided to the unincorporated portions of North Clackamas County and the City of Happy Valley as well as those portions of unincorporated Clackamas County draining into the Tualatin River and the City of Rivergrove.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide statements. The Notes to the Basic Financial Statements can be found on pages 18 through 36 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information concerning WES' budgetary comparisons, beginning on page 37.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Financial Analysis

WES was formed on November 16, 2016 with no activity prior to July 1, 2017. In the condensed statements of net position below, the June 30, 2019 column includes the combined assets and liabilities received from CCSD No. 1 at the beginning of FY 2019.

The following table offers a comparison of assets, liabilities, and net position at June 30, 2021, 2020 and 2019:

	Net Position		
	(In Thousands of Dollars)		
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Current assets	\$ 118,704	\$ 68,789	\$ 74,358
Other assets, net	4,114	2,758	3,441
Noncurrent assets - restricted	59,363	42,798	34,540
Capital assets, net	<u>229,316</u>	<u>232,612</u>	<u>211,094</u>
Total assets	<u>411,497</u>	<u>346,957</u>	<u>323,433</u>
Total deferred outflows of resources	<u>-</u>	<u>544</u>	<u>2,027</u>
Total assets and deferred outflows of resources	<u>411,497</u>	<u>347,501</u>	<u>325,460</u>
Current liabilities	14,905	12,173	11,422
Noncurrent liabilities	<u>159,540</u>	<u>106,403</u>	<u>100,192</u>
Total liabilities	<u>174,445</u>	<u>118,576</u>	<u>111,614</u>
Net investment in capital assets	112,167	122,723	109,060
Restricted for capital projects	49,480	41,648	32,961
Restricted for debt service	9,544	906	1,321
Unrestricted	<u>65,861</u>	<u>63,648</u>	<u>70,504</u>
Total net position, end of period	<u>\$ 237,052</u>	<u>\$ 228,925</u>	<u>\$ 213,846</u>

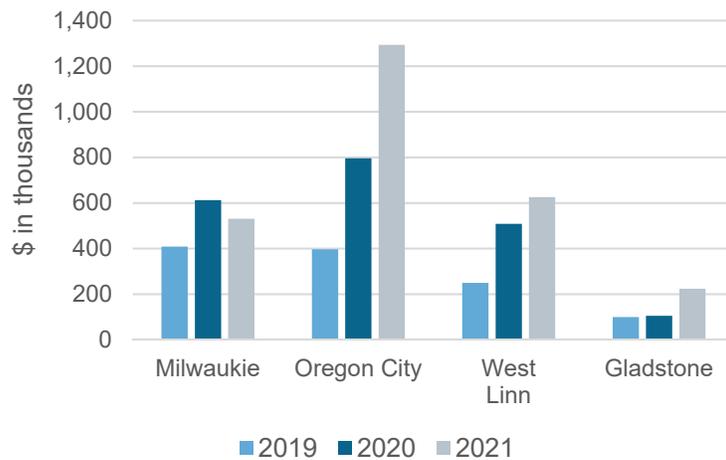
WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Financial Analysis (Continued)

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

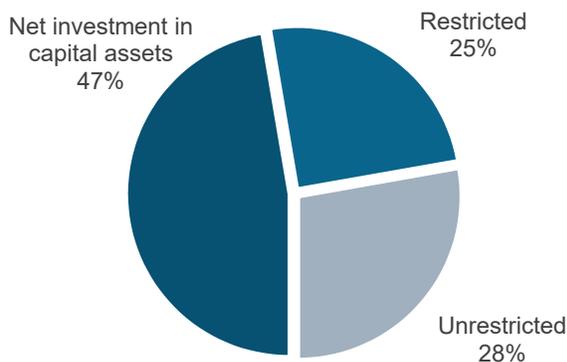
Current assets increased by \$49,915 primarily due to an increase of \$48,711 in pooled cash and investments, restricted related to the issuance of the series 2021 revenue obligations. Accounts receivable increased by \$1,141. This increase was due to an increase in connection charges receivable¹ as well as an additional month of sewer charges outstanding for two of WES’ major customers, as shown in the chart here.

**Accounts Receivable
Major Customers of WES**



As noted in the Overview section, net position may serve as a useful indicator of WES’ financial position. WES’ net position increased by \$8,127 to \$237,052 for the fiscal year ended June 30, 2021. Capital assets net decreased by \$3,296. Land, easements and construction in progress decreased by \$54,519 and Plant and equipment net increased by \$51,240, both due to the completion of several projects during FY 2021. Noncurrent unbonded assessments receivable decreased \$378 due to payoffs. Long term debt, net of current portion, payable from restricted assets increased by \$41,498.

Net Position



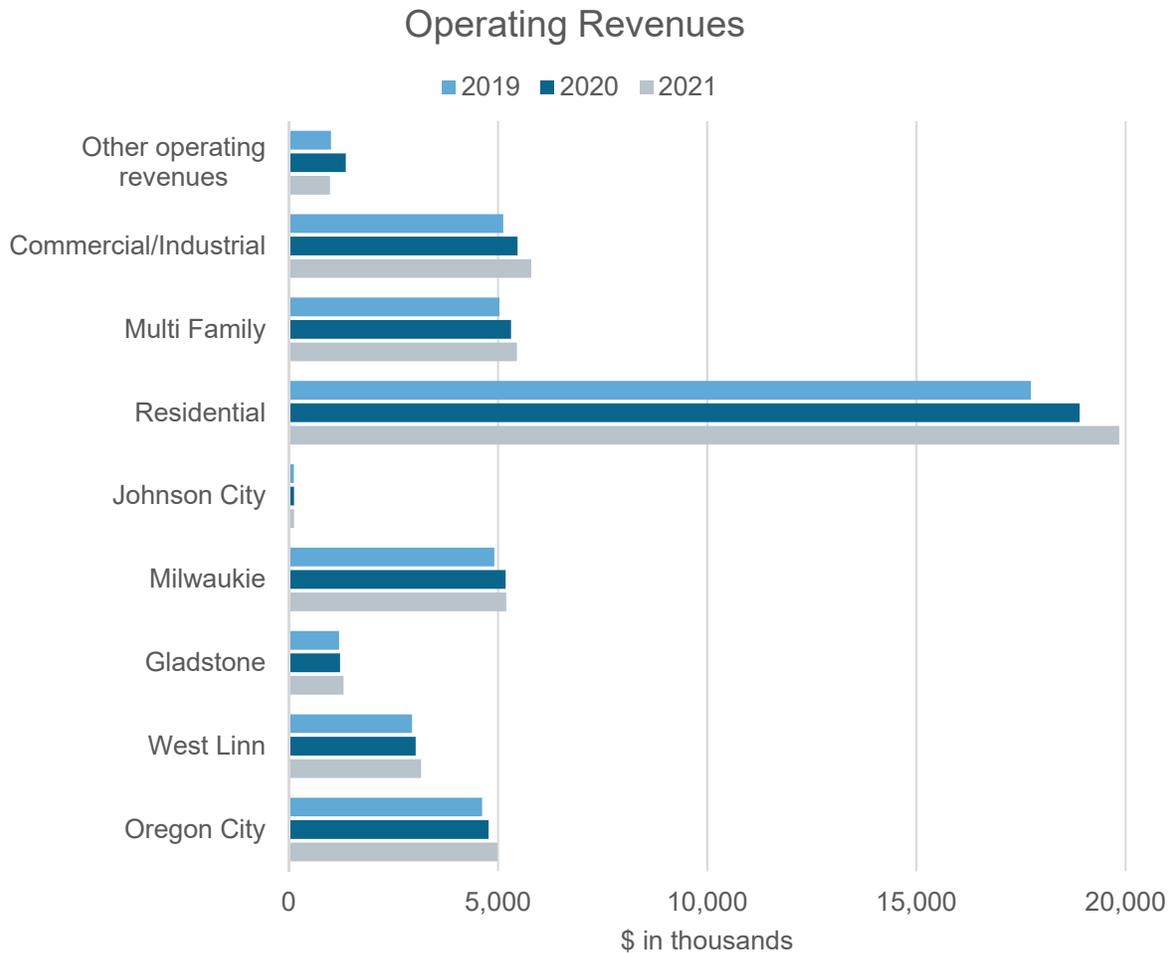
The majority of net position items are capital assets, represented by treatment facilities, land, conveyance systems, buildings, office equipment, and vehicles. Restricted assets relate to the state loans, revenue bond proceeds, and system development charges. Unrestricted net position account for 28% of total net position. These items have no external restriction concerning their use or function.

¹ Connection charges include System Development Charges (SDCs)

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Financial Analysis (Continued)

Total operating revenues increased \$1,475 in 2021 to \$46,869. Operating revenues in 2020 and 2019 were \$45,394 and \$42,708, respectively. Revenue from sanitary sewer user charges increased \$1,510 or 3.9% and revenues from surface water user charges increased \$339 or 6.6%. These increases were due to growth in the district as well as sanitary sewer and surface water monthly rate increases for FY 2021 that ranged from 0.13% to 5.35%, depending on the type of service.

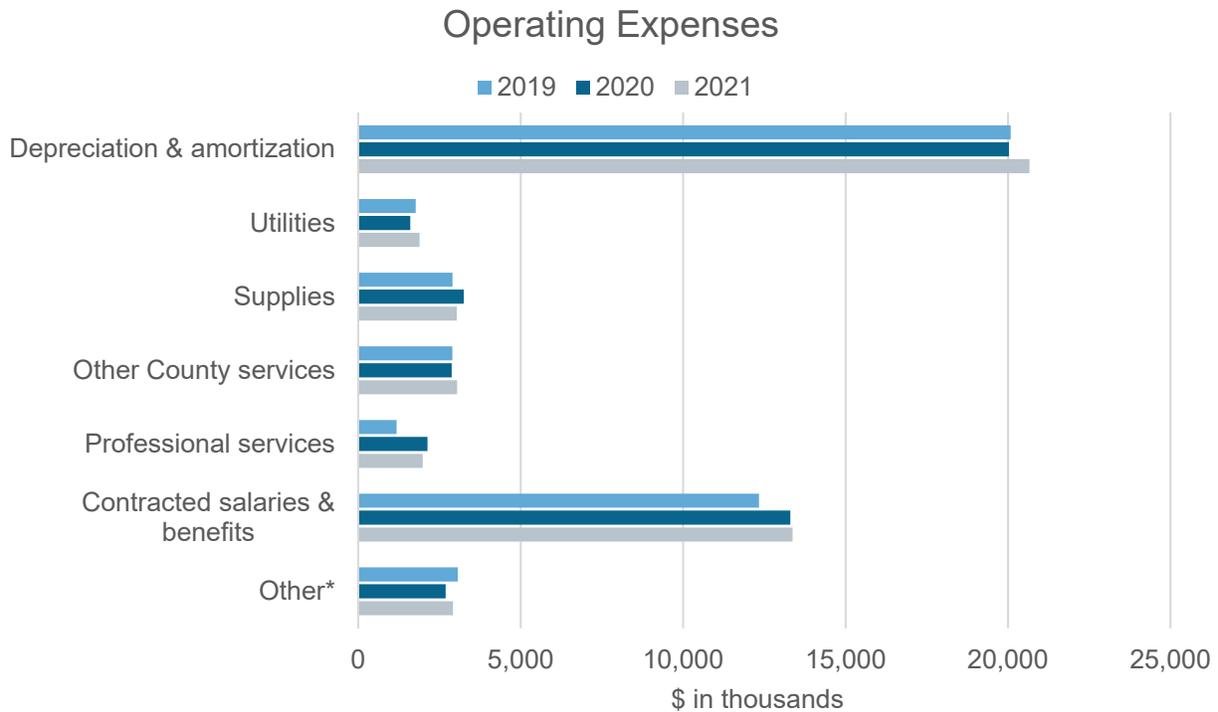


In the chart above, sanitary sewer user charges are reflected in the revenue from the cities, and portions of commercial/industrial customers, multi family, and residential customers. Surface water charges are reflected as the remaining portions of commercial/industrial customers, multi family, and residential customers. Other operating revenues consist of permit and plan review fees, right-of-way fees, lien search fees, and other miscellaneous revenue.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Financial Analysis (Continued)

Total operating expenses increased \$1,020 or 2.2% in FY 2021. In FY 2020, operating expenses increased \$963 or 7.8% from FY 2019. Utilities increased by \$284 or 17.7% due to higher electricity usage related to powering new equipment. Repairs and maintenance increased by \$200 or 34.6% driven in part by repair costs incurred as a result of two emergency events: a wildfire/high wind event in September 2020 and an ice storm event in February 2021. Other County Services increased by \$167 or 5.8% due to higher labor costs for imbedded staff that serve WES. These increases were partially offset by decreases in professional services of \$147 due to the completion of certain planning efforts, a decrease in supplies of \$214 and in other expense of \$95. Depreciation and amortization increased \$633 in FY 2021 due to depreciation costs for new assets. See Note 5 for further details.



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

In nonoperating revenue (expense) accounts, total nonoperating expense increased by \$305. Interest expense decreased by \$636 and interest income decreased by \$682. Loss on disposal of capital assets increased by \$244.

Connection charges, which include system development charges, decreased \$2,194 or 20.9% due to a decreased level of development activity. Capital contributions decreased \$4,908.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Financial Analysis (Continued)

The following table offers a comparison of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2021, 2020 and 2019:

<u>Changes in Net Position</u>			
(In Thousands of Dollars)			
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Sanitary Sewer user charges	\$ 40,379	\$ 38,869	\$ 36,791
Surface Water user charges	5,503	5,164	4,910
Other operating revenues	987	1,361	1,007
Operating revenues	<u>46,869</u>	<u>45,394</u>	<u>42,708</u>
Contracted salaries and benefits	13,369	13,300	12,337
Material and services	33,540	32,589	31,897
Operating expenses	<u>46,909</u>	<u>45,889</u>	<u>44,234</u>
Operating loss	<u>(40)</u>	<u>(495)</u>	<u>(1,526)</u>
Interest income	1,080	1,763	1,806
Interest expense	(3,324)	(3,960)	(4,896)
Other	(213)	45	24
Nonoperating expense	<u>(2,457)</u>	<u>(2,152)</u>	<u>(3,066)</u>
Loss before contributions	<u>(2,497)</u>	<u>(2,647)</u>	<u>(4,592)</u>
Contributions	10,624	17,726	10,382
Special Items			
Gain on transfer of operations	<u>-</u>	<u>-</u>	<u>155,565</u>
Change in net position	8,127	15,079	161,355
Net position - beginning of year	<u>228,925</u>	<u>213,846</u>	<u>52,491</u>
Net position - end of year	<u>\$ 237,052</u>	<u>\$ 228,925</u>	<u>\$ 213,846</u>

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Capital Asset and Debt Analysis

WES' capital assets, net as of June 30, 2021 were \$229,316 and at June 30, 2020, were \$232,612. Land, easements, and construction in progress decreased \$54,519 from a decrease in construction in progress as several projects were completed during FY 2021. Plant and equipment, net increased \$51,240 due to additions from the completion of projects. Intangible assets, net decreased \$18 due to depreciation. Overall, capital assets, net decreased \$3,296 from FY 2020. From FY 2019 to FY 2020, capital assets, net increased by \$21,518. Readers interested in more detailed information are referred to Note 5 of the Notes to Basic Financial Statements beginning on page 26.

Noncurrent liabilities increased by \$53,137 to \$159,540 as shown in Notes 7 and 8. Long term debt increased by \$41,498 and long term contracts increased by \$11,650. The key factors for these increases are revenue obligations issued in FY 2021 which will be used to fund capital projects and loan proceeds related to a State of Oregon Department of Environmental Quality Revolving Fund Loan which is being used to fund the Tri-City Solids Handling project.

On February 24, 2021, Water Environment Services issued sewer revenue obligations series 2021 in the principal amount of \$40,000,000 with a true interest cost of 0.84%. Proceeds from the obligations, excluding a premium of \$8,801,286, will be used to finance capital improvement projects. The proceeds from the premium will be used to make debt service payments to realize the true interest cost.

At June 30, 2021, WES had the aforementioned outstanding series 2021 debt issue of revenue obligations to finance capital improvements, two state revolving loans, and a refinancing issue of revenue obligations which refinanced the majority of three series of revenue obligations as well as one state revolving loan.

A portion of WES' revenue bond debt is payable from assessments levied and collected against the benefited property owners first and, if assessment collections and interest earnings are not sufficient, from operating revenues of WES. The balance of the revenue bond and revenue obligation debt and the state revolving loans are payable through operating revenues and connection fees. WES continues to maintain a AAA bond rating with Standard and Poor's Corporation; this rating was originally obtained in May 2018 and was reaffirmed in February 2021.

Readers interested in more detailed information are referred to Notes 7 and 8 of the Notes to Basic Financial Statements beginning on page 28.

Rates and Charges

In August of 2016, ECONorthwest created a population projection update for the portion of WES served by sanitary sewerage services. Growth projections within this portion for 2017 through 2021 were projected to be 2.9% on an annual average. Experience of WES to date has not matched projections. While growth in the last year has been closer to the projections than in the prior years, it is still below the projected rate of 2.9% and budgeting and financial planning presume a lower growth rate. WES intends to update the study in FY 2021-22.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Rates and Charges (Continued)

While these future customers will increase WES' customer base and enhance realization of economies of scale opportunities, they will also buy into the sanitary sewer system through the payment of system development charges (SDCs). These charges are used for capital construction costs related to capacity expansion necessary for growth. SDCs can also assist in retiring existing revenue bond debt. Growth in the sanitary sewer customer base in FY 2021 was 1.2% with approximately 922 new connections. In FY 2021, WES' SDC revenues were \$8,326, a decrease of \$2,194 from FY 2020.

The most recent budget adopted for FY 2022 established a retail sanitary sewer service rate of \$51.45 per equivalent dwelling unit (EDU) for all retail customers of WES. The retail sanitary sewer service fee for the City of Happy Valley is \$54.02, which includes the city's Right-of-Way (ROW) fee. The net increase for these customers was approximately 0.39%, after increases in the wholesale sanitary service rate and decreases in the collection for outstanding debt payments. The budget also established a wholesale sanitary service rate of \$25.30 for the cities of Johnson City, Milwaukie, and West Linn, an increase of 1.4%. A rate of \$26.60 per EDU was established for the city of Gladstone and a rate of \$27.00 per EDU was established for the city of Oregon City. These differentials in the rate are increases above the base rate charged to all wholesale customers required to raise additional funds to pay Gladstone and Oregon City their ROW fees. The FY 2021 budget includes a surface water rate increase of \$0.05 from \$4.65 per equivalent service unit (ESU) to \$4.70 per ESU in Rate Zone 3 and an increase of \$0.10 from \$7.65 per ESU to \$7.75 per ESU in Rate Zone 2. Please see WES' budget for a more detailed explanation of its ratemaking approach. WES' rate base allows for sufficient revenues to provide for operating expenses and continues to provide the funding necessary to finance future capital construction.

The three member cities of WES each add a charge to WES' base sanitary sewer service rate to provide for the costs associated with building and maintaining the collection systems operated by each. The cities of Gladstone, Oregon City, and West Linn added an estimated \$32.26, \$33.19, and \$21.80 per month per EDU, respectively, to the WES monthly sewer fee to provide for the costs associated with combined sewer separation and other collection system upgrades.

Economic Factors and Next Year's Budget

In early 2020, cases of novel coronavirus (COVID-19) began surfacing in the United States and on the West Coast. In response to emerging local cases here in the State of Oregon, the Governor issued an Executive Order declaring a state of emergency on March 8, 2020, and issued an Executive Order to stay home on March 23, 2020. To date, the County has experienced various levels of shut downs and re-openings and is now combatting Delta, the 4th wave of the virus. It is unknown at this time what the exact economic impact will be to WES in the coming fiscal year. While the majority of WES' user charges are billed at a fixed-rate, WES anticipates a projected decrease in consumption-based commercial account revenue during FY 2022 resulting from imposed reductions in economic activity throughout 2020 and 2021. The decrease in commercial account revenue is expected to be more than offset by an increase in residential account revenue resulting from growth and minor rate adjustments.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Financial Contact

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

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Basic Financial Statements



WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET POSITION
June 30, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Pooled cash and investments	\$ 61,309,129	\$ 60,952,548
Pooled cash and investments, restricted	48,711,213	-
Unbonded assessments receivable, net	101,271	144,240
Accrued interest receivable on assessments, net	83,270	79,422
Accounts receivable	8,240,790	7,100,191
Interest receivable	86,917	349,137
Prepaid expenses	171,575	163,680
Total current assets	118,704,165	68,789,218
Noncurrent assets:		
Pooled cash and investments - restricted	59,362,842	42,798,017
Capital assets:		
Land, easements and construction in progress	20,834,265	75,353,074
Plant and equipment, net	208,424,526	157,184,028
Intangible assets, net	56,966	74,963
Connection charges receivable, noncurrent portion	140,849	163,395
Bonded assessments receivable, net	89,848	104,176
Contracts receivable, noncurrent portion	2,098,714	327,913
Unbonded assessments receivable, noncurrent portion	1,784,558	2,162,357
Total noncurrent assets	292,792,568	278,167,923
TOTAL ASSETS	411,496,733	346,957,141
Deferred outflows of resources:		
Deferred charges on debt refunding	-	543,859
Total deferred outflows of resources	-	543,859
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	411,496,733	347,501,000
LIABILITIES		
Current liabilities:		
Accounts payable	6,204,530	6,095,439
Contract labor payable	608,238	534,459
Other liabilities	279,942	228,146
Unearned income	11,300	11,300
Due to Clackamas County	1,142,078	1,018,697
Accrued interest payable, payable from restricted assets	362,740	243,936
Loan payable, current portion	106,208	106,208
Current portion of long term debt, payable from restricted assets	6,190,000	3,935,000
Total current liabilities	14,905,036	12,173,185
Noncurrent liabilities:		
Long term unearned income, net of current portion	-	11,300
Long term debt, net of current portion, payable from restricted assets	126,996,869	85,498,491
Long term contracts, net of current portion	32,543,127	20,892,892
Total noncurrent liabilities	159,539,996	106,402,683
TOTAL LIABILITIES	174,445,032	118,575,868
NET POSITION		
Net investment in capital assets	112,167,501	122,723,333
Restricted for capital projects	49,479,669	41,647,857
Restricted for debt service	9,543,698	906,224
Unrestricted	65,860,833	63,647,718
TOTAL NET POSITION	\$ 237,051,701	\$ 228,925,132

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Sanitary Sewer user charges	\$ 40,379,418	\$ 38,869,238
Surface Water user charges	5,502,982	5,163,571
Other operating revenues	<u>987,048</u>	<u>1,361,246</u>
Total operating revenues	<u>46,869,448</u>	<u>45,394,055</u>
Operating expenses:		
Contracted salaries and benefits	13,369,676	13,300,131
Professional services	1,987,953	2,135,318
Laboratory services	93,514	65,272
Other County services	3,046,288	2,879,695
Supplies	3,034,936	3,248,542
Vehicle expenses	930,344	791,322
Repairs and maintenance	779,829	579,479
Utilities	1,887,324	1,602,852
Insurance	394,858	439,037
Other expense	720,138	815,143
Depreciation and amortization	<u>20,664,890</u>	<u>20,031,956</u>
Total operating expenses	<u>46,909,750</u>	<u>45,888,747</u>
Operating loss	<u>(40,302)</u>	<u>(494,692)</u>
Nonoperating revenues (expenses):		
Interest income	1,080,151	1,762,557
Interest expense	(3,324,067)	(3,960,237)
Federal and state grants	216,180	173,504
Dispatchable power	11,300	69,100
Loss on disposal of capital assets	<u>(440,983)</u>	<u>(197,017)</u>
Total nonoperating expenses	<u>(2,457,419)</u>	<u>(2,152,093)</u>
Loss before contributions	<u>(2,497,721)</u>	<u>(2,646,785)</u>
Contributions:		
Connection charges	8,326,178	10,520,618
Capital contributions	<u>2,298,112</u>	<u>7,205,704</u>
Total contributions	<u>10,624,290</u>	<u>17,726,322</u>
Change in net position	8,126,569	15,079,537
Net position - beginning of year	<u>228,925,132</u>	<u>213,845,595</u>
Net position - end of year	<u>\$ 237,051,701</u>	<u>\$ 228,925,132</u>

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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Received from customers	\$ 45,167,896	\$ 43,096,878
Payments to suppliers for goods and services	(10,389,862)	(8,917,063)
Payments to related entities for services	(16,154,852)	(16,120,007)
Other operating revenue	1,052,820	1,328,807
Net cash from operating activities	19,676,002	19,388,615
Cash flows from noncapital financing activities:		
Federal and state grant revenue	173,504	-
Net cash from noncapital financing activities	173,504	-
Cash flows from capital and related financing activities:		
Bond principal paid	(3,935,000)	(3,785,000)
Interest paid on bonds and contracts	(3,774,312)	(3,017,311)
Proceeds from bonds	48,801,286	-
Proceeds from loans	11,756,443	19,671,485
Assessment and contract principal collected	457,642	492,039
Interest received on assessments and contracts	131,041	129,047
Connection charges collected	7,862,351	10,494,830
Capital contributed by customers/governments	-	315,667
Payments made on note payable	(106,208)	(106,208)
Proceeds from sale of capital assets	262,020	268,300
Acquisition of capital assets	(16,889,228)	(34,868,321)
Net cash from capital and related financing activities	44,566,035	(10,405,472)
Cash flows from investing activities:		
Interest received	1,217,078	1,752,538
Net cash from investing activities	1,217,078	1,752,538
Net change in cash and cash equivalents	65,632,619	10,735,681
Pooled cash and investments, beginning of year	103,750,565	93,014,884
Pooled cash and investments, end of year ⁽¹⁾	\$ 169,383,184	\$ 103,750,565
(1) Pooled cash and investments are reflected on the Statements of		
Net Position as follows:		
Current assets - unrestricted	\$ 61,309,129	\$ 60,952,548
Current assets - restricted	48,711,213	-
Noncurrent assets - restricted	59,362,842	42,798,017
	\$ 169,383,184	\$ 103,750,565

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, 2021 and 2020

	2021	2020
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (40,302)	\$ (494,692)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	20,664,890	20,031,956
Changes in assets and liabilities:		
Increase in sewerage charges and other receivables	(643,692)	(981,890)
Decrease (increase) in prepaid expenses	(7,895)	202,845
Increase (decrease) in accounts payable and Due to Clackamas County	(422,574)	457,173
Increase in Contract labor payable	73,779	124,081
Increase in other liabilities	51,796	49,142
Total adjustments	19,716,304	19,883,307
Net cash from operating activities	\$ 19,676,002	\$ 19,388,615
Noncash capital activity		
Contributions of capital assets from governments, developers and customers	\$ 2,298,112	\$ 6,890,037

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, 2021 and 2020

1. Summary of Significant Accounting Policies

Reporting Entity

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

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

WES has no potential component units. Since Clackamas County, Oregon (“County”) is financially accountable for and significantly influences the operations of WES and the Clackamas County Board of Commissioners also serves as WES’ Board, WES is included as a blended component unit in the Annual Comprehensive Financial Report of Clackamas County, Oregon for the year ended June 30, 2021.

Fiscal and accounting functions are provided by personnel supporting WES, the County Treasurer and the County’s Finance Department. WES contracts with the County for their personnel services.

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

Basis of Accounting

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

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

WES distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations, primarily sewage treatment and surface water operations. Operating expenses include the cost of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. Contributions represent connection fees 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, 2021 and 2020

1. Summary of Significant Accounting Policies (Continued)

Pooled Cash and Investments

State statutes authorize WES to invest in general obligations of the U.S. Government and in its agencies, certain bonded obligations of Oregon municipalities, certain corporate indebtedness, bank repurchase agreements, bankers' acceptances, certain commercial paper and the State of Oregon Treasurer's Local Government Investment Pool ("LGIP"), among others. As of June 30, 2021, and for the year then ended, WES and the County were in compliance with the aforementioned State of Oregon statutes.

Pooled cash and investments represent WES' equity in pooled accounts maintained by the County Treasurer. Some financial information required by Governmental Accounting Standards Board Statements ("GASB") No. 3, No. 31, No. 40, and No. 72 regarding the accounting and financial reporting for WES' pooled cash and investments, held by the Clackamas County Treasurer, has been disclosed in the County's Annual Comprehensive Financial Reports for the fiscal years ended June 30, 2021 and June 30, 2020.

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 12.09%. WES has determined the collectability of a portion of assessments receivable and accrued interest thereon as doubtful and has established an allowance.

The balance of the allowance at June 30, 2021 is \$526,465 of which \$152,522 is accrued interest. The balance of the allowance at June 30, 2020 was \$578,039 of which \$204,095 was accrued interest. Assessments receivable arise from both bonded and unbonded sources. Bonded assessments were funded through revenue bond sales. Unbonded assessments were funded from WES' operations.

Accounts Receivable

Sanitary sewer and surface water user charges, included as accounts receivable in the Statements of Net Position, are due from property owners within WES. An allowance for doubtful accounts is not deemed necessary as uncollectible accounts become a lien on the property.

Restricted Assets and Related Liabilities

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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

Plant and buildings	10 - 50 years
Collection system	10 - 50 years
Equipment	5 - 20 years

Intangible Assets

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

Deferred Outflows of Resources

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

Bonds

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

Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and contributions of capital. Net position is classified in the following four components: Net investment in capital assets; Restricted for capital projects; Restricted for debt service; and Unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt (revenue bonds and other debt obligations) that is attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital projects and debt service consists of net position on which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including legal mandates. The balance in Restricted for capital projects of \$49,479,669 at June 30, 2021 and \$41,647,857 at June 30, 2020, are restricted due to enabling legislation. This balance relates to unspent System Development Charges. Unrestricted net position consists of all other assets not included in the above categories.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

1. Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

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

Use of Estimates

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

Reclassifications

Certain line items in the 2020 financial statements have been reclassified to conform to the 2021 presentation.

Special Items

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

Adoption of New GASB Pronouncements

During the fiscal year ended June 30, 2021, the following new GASB pronouncements became effective.

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

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

The adoption of the above GASB standards had no impact to WES' Annual Comprehensive Financial Report.

WES has implemented the following GASB pronouncement early:

GASB Statement No. 98, *The Annual Comprehensive Financial Report*, Issued October 2021.

All references to the annual comprehensive financial report have been updated as required.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

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, 2021:

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

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

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

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

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

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

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

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

2. Stewardship, Compliance, and Accountability

WES is required by state law to budget its operations on a fund basis. The budget is generally prepared on the accrual basis of accounting under which revenues are recognized at the time they are earned and expenses are recognized when they are incurred, regardless of the timing of the related cash flow. Differences exist between the basis of accounting used for financial reporting and the basis of budgeting. In particular, these differences include: principal payments on long term debt are expended on a budgetary basis but are applied to the outstanding liability on a GAAP basis; capital outlay are treated as expenditures on a budgetary basis but are capitalized on a GAAP basis; debt proceeds are resources on a budgetary basis but are an outstanding liability on a GAAP basis; and depreciation is accrued for GAAP purposes but is not a budgeted expense as it does not require an expenditure of funds.

The resolution authorizing appropriations for WES' funds sets the level by which expenditures cannot legally exceed appropriations. Appropriations are made at the principal object level - materials and services, interfund transfers, capital outlay, debt service, special payments, reserve, and contingency - which are the levels of control established by the resolution. The budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

2. Stewardship, Compliance, and Accountability (Continued)

Management may make transfers of appropriations within object levels. However, transfers of appropriations among object levels require approval by the Board.

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

During the fiscal year, the Board approved a supplemental budget of \$9,236,170 to recognize the issuance of the series 2021 revenue obligations. The supplemental budget included an increase in appropriations for the first debt service payment due on June 1, 2021 and transfer of the premium to the debt service fund. Both the original adopted budget and the revised budget comparisons are provided in the accompanying budget schedules. All annual appropriations lapse at fiscal year end.

3. Pooled Cash and Investments

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

	2021	2020
Petty Cash	\$ 1,200	\$ 1,200
Pooled cash and investments	169,381,984	103,749,365
	\$ 169,383,184	\$ 103,750,565

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

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

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

3. Pooled Cash and Investments (Continued)

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

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

Reference may be made to the June 30, 2021 Annual Comprehensive Financial Reports of Clackamas County for the classifications of WES' pooled accounts maintained by the County Treasurer.

State statutes authorize WES to invest in general obligations of the U.S. Government and in its agencies, certain bonded obligations of Oregon municipalities, certain corporate indebtedness, bank repurchase agreements, bankers' acceptances, certain commercial paper and the State of Oregon Treasurer's Local Government Investment Pool ("LGIP"), among others. As of June 30, 2021 and 2020, and for the years then ended, WES and the County were in compliance with the aforementioned State of Oregon statutes.

The 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 County's Annual Comprehensive Financial Report for the fiscal years ended June 30, 2021 and June 30, 2020 for compliance with these statutes.

PFM Asset Management LLC provides administrative and operational support for the LGIP. The LGIP is an open-ended no-load diversified portfolio. The LGIP is offered 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 Oregon Short-Term Fund 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 County's Annual Comprehensive Financial Report for the fiscal years ended June 30, 2021 and June 30, 2020 for disclosures of the risk inherent in the County's portfolio.

WATER ENVIRONMENT SERVICES
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NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

3. Pooled Cash and Investments (Continued)

Custodial Credit Risk

WES is exposed to custodial credit risk because its cash and investments are held by a counterparty in the counterparty's name. This is the risk that in the event of failure of the counterparty, WES' deposits may not be returned. WES' cash and investments are held by Clackamas County in a pool. The pool consists of bank and local government investment pool accounts and federal treasury securities. This pool is subject to general credit claims of the County. WES believes that the risk of County default is slight and outweighed by the advantages of participation in the County cash and investment pool.

WES follows Clackamas County's policies to address custodial credit risk, which mirror parameters for the investment of public funds set forth in the ORS. Reference should be made to the Clackamas County 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 US Treasury or US Agencies rated AAA or AA+.

4. Accounts Receivable

At June 30, amounts are comprised of the following:

	2021	2020
User charges	\$ 6,380,916	\$ 5,666,412
Connection charges from cities	637,810	210,834
Current connection charges receivable, including interest of \$33,439 at June 30, 2021 and \$12,579 at June 30, 2020	81,014	44,164
Interest receivable on unbonded assessments	745,089	754,685
Intergovernmental agreement and miscellaneous receivables	395,961	424,096
	\$ 8,240,790	\$ 7,100,191

WATER ENVIRONMENT SERVICES
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JUNE 30, 2021 and 2020

5. Capital Assets

Changes in capital assets for the year ended June 30, 2021 were as follows:

	Balance June 30, 2020	Additions	Transfers	Deletions	Balance June 30, 2021
Capital assets not being depreciated:					
Land and easements	\$ 8,776,606	\$ -	\$ 1,584,319	\$ (664,053)	\$ 9,696,872
Construction in progress	66,576,468	17,544,274	(72,220,810)	(762,539)	11,137,393
Total capital assets, not being depreciated	75,353,074	17,544,274	(70,636,491)	(1,426,592)	20,834,265
Capital assets being depreciated and amortized:					
Intangibles	3,748,666	-	-	-	3,748,666
Collection plant	197,556,607	2,298,112	4,901,982	(33,766)	204,722,935
Pumping plant	27,659,821	-	5,319,840	(30,273)	32,949,388
Treatment plant	200,922,838	-	48,378,667	(3,260,841)	246,040,664
General plant	22,954,795	-	12,036,002	(1,520,959)	33,469,838
Total capital assets being depreciated and amortized	452,842,727	2,298,112	70,636,491	(4,845,839)	520,931,491
Less accumulated depreciation and amortization for:					
Intangibles	(3,673,703)	(17,997)	-	-	(3,691,700)
Collection plant	(94,880,309)	(5,721,705)	-	23,803	(100,578,211)
Pumping plant	(20,202,528)	(1,585,283)	-	30,272	(21,757,539)
Treatment plant	(161,630,434)	(12,309,759)	-	2,926,699	(171,013,494)
General plant	(15,196,762)	(1,030,146)	-	817,853	(15,409,055)
Total accumulated depreciation and amortization	(295,583,736)	(20,664,890)	-	3,798,627	(312,449,999)
Total capital assets being depreciated and amortized, net	157,258,991	(18,366,778)	70,636,491	(1,047,212)	208,481,492
Total capital assets, net	\$ 232,612,065	\$ (822,504)	\$ -	\$ (2,473,804)	\$ 229,315,757

Depreciation expense for the year ended June 30, 2021 totaled \$20,664,890.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

5. Capital Assets (Continued)

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

6. Contracts Receivable

WES entered into a loan agreement with the State of Oregon Department of Environmental Quality (“DEQ”) for a Clean Water State Revolving Loan in November 2018. The loan is being used to finance construction of the Tri-City Solids Handling Improvement project with disbursements of the loan proceeds made by the DEQ following submission of eligible invoices by WES. At June 30, 2021, the balance related to this loan in current contracts receivable is \$0 as all submitted disbursements requests had been received.

A sale agreement and note receivable dated May 17, 2012, with Clackamas County provided for the sale of WES’ portion of the building located at 9101 SE Sunnybrook Boulevard. Per the terms of the agreement, interest will accrue on the principal at the rate of 4.325% per annum until the note’s maturity date of December 31, 2022. The note and all accrued interest were paid in full in FY 2021.

On September 18, 2020, WES entered into a purchase and sale agreement with a private developer which provides for the sale of the majority of the former Blue Heron property with WES to retain a 2.2 acre parcel (remainder parcel) of the property for future use. As existing lot lines do not conform with the parcel WES is retaining, per the terms of the sales agreement, 36.3 acres were sold and conveyed to the private developer and the remainder parcel has been leased back to WES for a total of \$120.00 to ensure continued access while the lot line adjustment is completed. Once the lot line adjustment has been completed, which is estimated to occur in late 2021, the agreement provides for WES to purchase the 2.2 acre remainder parcel back from the developer for \$1.00.

In consideration for the Blue Heron property sale, WES received a note for a base purchase price of \$2,000,000 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 \$8,000,000 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, 2021, it is uncertain whether the conditions required for the principal to adjust will occur and the note has been recorded at the base purchase price of \$2,000,000.

7. Loans Payable

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

7. Loans Payable (Continued)

In November 2018, WES entered into a loan agreement with the State of Oregon via DEQ for Clean Water State Revolving Loan R95030. The total amount of the loan is \$37,000,000 at 2.14% interest to finance construction of the Tri-City Solids Handling Improvement project. As of June 30, 2021, WES has submitted and received \$31,427,928 in reimbursable expenses. Loan payments, in semi-annual installments of principal and interest over 20 years will commence following completion of the construction project, which is estimated to occur in December 2021.

In September 2020, WES entered into a loan agreement with the State of Oregon via DEQ for Sponsorship Option Loan R95031 to finance 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 and the Tri-City Solids Handling Improvement project associated with SRF Loan R95030. As of June 30, 2021, no loan disbursements have been received. Loan payments, in semi-annual installments of principal and interest over 20 years will commence following completion of the construction project, which is estimated to occur in December 2024.

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 sewer revenues and contain certain financial covenants. As of June 30, 2021, Management believes WES was in compliance with these covenants.

Changes in loans payable for the year ended June 30, 2021 are as follows:

	Interest Rates	Outstanding July 1, 2020	Increases	Decreases	Outstanding June 30, 2021	Current Portion
Revolving Loan R06224	0.00%	\$ 1,327,615	\$ -	\$ (106,208)	\$ 1,221,407	\$ 106,208
Revolving Loan R95030	2.14%	19,671,485	11,756,443	-	31,427,928	-
Revolving Loan R95031	1.38%	-	-	-	-	-
		<u>\$ 20,999,100</u>	<u>\$ 11,756,443</u>	<u>\$ (106,208)</u>	<u>\$ 32,649,335</u>	<u>\$ 106,208</u>

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

7. Loans Payable (Continued)

Future maturities of revolving loans are as follows:

Year	Principal	Interest	Admin. Fees	Total
2022	\$ 106,208	\$ -	\$ 5,842	\$ 112,050
2023	106,208	-	5,310	111,518
2024	106,208	-	4,779	110,987
2025	106,208	-	4,248	110,456
2026	106,208	-	3,717	109,925
2027-2031	531,040	-	10,620	541,660
2032-2033	159,327	-	531	159,858
	<u>\$ 1,221,407</u>	<u>\$ -</u>	<u>\$ 35,047</u>	<u>\$ 1,256,454</u>

8. Long Term Debt

Changes in long term debt for the year ended June 30, 2021, are as follows:

	Interest Rates	Outstanding June 30, 2020	Increases	Decreases	Outstanding June 30, 2021	Current Portion
Revenue Obligations - 2010	2.000% - 4.625%	\$ 840,000	\$ -	\$ (840,000)	\$ -	\$ -
Revenue Obligations - 2016	2.000% - 5.000%	80,175,000	-	(3,095,000)	77,080,000	4,125,000
Revenue Obligations - 2021	2.000% - 5.000%	-	40,000,000	-	40,000,000	2,065,000
		<u>\$ 81,015,000</u>	<u>\$ 40,000,000</u>	<u>\$ (3,935,000)</u>	<u>\$ 117,080,000</u>	<u>\$ 6,190,000</u>

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

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

Changes in premiums for the year ended June 30, 2021, are as follows:

	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021
Revenue Obligations - 2016 Premium	\$ 8,418,491	\$ -	\$ (526,156)	\$ 7,892,335
Revenue Obligations - 2021 Premium	-	8,801,286	(586,752)	8,214,534
	<u>\$ 8,418,491</u>	<u>\$ 8,801,286</u>	<u>\$ (1,112,908)</u>	<u>\$ 16,106,869</u>

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

8. Long Term Debt (Continued)

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

	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021
Revenue Obligations - 2016 Premium	\$ 8,944,647	\$ -	\$ (526,156)	\$ 8,418,491
	<u>\$ 8,944,647</u>	<u>\$ -</u>	<u>\$ (526,156)</u>	<u>\$ 8,418,491</u>

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

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

	2021	2020
Current maturities - face value	\$ 6,190,000	\$ 3,935,000
	<u>\$ 6,190,000</u>	<u>\$ 3,935,000</u>
Future maturities - face value	\$ 110,890,000	\$ 77,080,000
Premium	16,106,869	8,418,491
	<u>\$ 126,996,869</u>	<u>\$ 85,498,491</u>

Revenue Obligations 2009A, 2009B, 2010, 2016, and 2021

Revenue obligations are payable from monthly sewer fees collected from customers connected to and benefited by the system. The original amount of the 2009A issuance was \$38,460,000, the 2009B issuance was \$44,365,000 and the 2010 issuance was \$23,710,000. These issuances were all used to finance capital improvements for the Phase 1 Capacity Expansion Project. The 2009A issuance was paid in full at June 30, 2019. The 2009B issuance was paid in full at June 30, 2020 and the 2010 issuance was paid in full at June 30, 2021.

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

8. Long Term Debt (Continued)

Revenue Obligations 2009A, 2009B, 2010, 2016, and 2021 (Continued)

The reacquisition price exceeded the net carrying amount of the old debt by \$8,826,731. This amount is being reported in the statements of net position as a deferred outflow of resources and amortized over the remaining life of the refunded debt in accordance with GASB 65. At June 30, 2021 the balance was \$0. The advance refunding of portions of the 2009A, 2009B, and 2010 bonds and refinancing of Loan R22403 was done to reduce total annual debt service payments by approximately \$625,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$9.7 million. The refinancing also released approximately \$7.6 million in reserves that was used for capital projects.

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) will be 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, 2021 are as follows:

Fiscal Year	Principal	Interest
2022	\$ 4,125,000	\$ 2,635,756
2023	4,345,000	2,424,006
2024	4,705,000	2,197,757
2025	4,945,000	1,956,506
2026	5,200,000	1,702,881
2027-2031	29,390,000	5,140,357
2032-2036	24,370,000	1,292,641
	<u>\$ 77,080,000</u>	<u>\$ 17,349,904</u>

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

Fiscal Year	Principal	Interest
2022	\$ 2,065,000	\$ 1,614,000
2023	2,170,000	1,510,750
2024	2,280,000	1,402,250
2025	2,395,000	1,288,250
2026	2,515,000	1,168,500
2027-2031	14,585,000	3,826,500
2032-2036	13,990,000	741,100
	<u>\$ 40,000,000</u>	<u>\$ 11,551,350</u>

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

8. Long Term Debt (Continued)

Revenue Obligations 2009A, 2009B, 2010, 2016, and 2021 (Continued)

Under the revenue obligation agreements, WES has agreed to covenants that it will charge user rates and fees in connection with the operation of the sewer system, which are adequate to cover annual debt service as required by the bond agreements and a minimum of an additional twenty percent (20%) collected. WES has also agreed to maintain restricted reserve accounts to provide for the payment of debt service in the event that pledged revenues are not sufficient to pay debt service when due. Management believes WES was in compliance with these covenants during the year ended June 30, 2021.

At June 30, 2021, 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, 2021 Revenue	For the Year Ended June 30, 2021 Debt (P&I) Payments
State Loan R06224	Sewer Assessments	2033	\$ 1,221,407	\$ 30,030,917 *	\$ 106,208
Revenue Obligations 2016	Sewer Fees	2036	77,080,000	-	6,941,256
Revenue Obligations 2021	Sewer Fees	2035	40,000,000	-	2,499,883
Total			\$ 118,301,407	\$ 30,030,917	\$ 9,547,347

* Same net revenue source pledged for multiple purposes.
Total Gross Revenues of \$56,275,777 less Total Operating Expenses of \$26,244,860.

9. Related Party Transactions

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

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

During fiscal years 2021 and 2020, 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 2021 and 2020, charged by the above departments, totaled approximately \$16,415,964 and \$16,179,826 respectively.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

9. Related Party Transactions (Continued)

At June 30, related party balances consist of:

	Receivable		Payable	
	2021	2020	2021	2020
Clackamas County *	\$ 251,592	\$ 646,527	\$ 1,164,920	\$ 1,018,697
Clackamas County - Contract labor payable	-	-	608,238	534,459
Subtotal	<u>251,592</u>	<u>646,527</u>	<u>1,773,158</u>	<u>1,553,156</u>
Total	<u>\$ 251,592</u>	<u>\$ 646,527</u>	<u>\$ 1,773,158</u>	<u>\$ 1,553,156</u>

*From the Statements of Net Position, the related party receivable for Clackamas County reflects a subset of the Accounts Receivable balance; the related party payable for Clackamas County reflects the combined balance between the Due to Clackamas County and a subset of the Accounts Payable balance.

10. Commitments

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

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

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

In accordance with the terms of these agreements, the following fees and charges were earned by WES during the years ended June 30:

	2021	2020
Sanitary Sewer user charges	\$ 14,784,587	\$ 14,346,181
Connection charges	1,652,210	1,877,704
Pump station maintenance charges	1,605	6,427
	<u>\$ 16,438,402</u>	<u>\$ 16,230,312</u>

During FY 2020, WES entered into a "Good Neighbor" agreement with the cities of Gladstone and Oregon City to fund neighborhood enhancement projects relating to the hosting of the Tri-City Water Resource Recovery Facility (WRRF) in their communities. Total costs related to this agreement for FY 2021 were \$250,000. Total costs for FY 2020 were the same.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

10. Commitments (continued)

In December 2020, WES entered into an agreement with the city of Gladstone to partner on collection system improvement projects for the benefit of both parties. Under the terms of the agreement, WES manages the projects and invoices the City quarterly for expenses related to work performed in the City. The estimated full cost of work reimbursable by the City for this project over the approximately 3 year agreement term is \$461,822. During FY 2021, WES invoiced the City for \$247,533 of reimbursable project expenses.

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

WES is committed under contractual agreements for various multi-year contracts related to capital acquisition and service agreements. The total contract costs are approximately \$98.8 million. As of June 30, 2021, approximately \$20.9 million of these contracts remain outstanding.

11. 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.

12. Risk Management

WES is exposed to various risks of loss related to errors and omissions; automobile; damage to and destruction of assets; and bodily injury for which WES carries commercial insurance. An IGA between WES and Clackamas County clarifies that for workers' compensation and employment practice liability issues, WES participates in the County's risk management pool. All employees of WES are contracted from the County. WES makes payments to the County's self-insurance internal service funds based on historical cost information, estimates of the amounts needed to pay prior year and current year claims, claim reserves, premiums and administrative costs of the program. During the past three fiscal years, no settled claims have exceeded insurance coverage levels, and there has been no significant reduction in coverage.

13. Pollution Remediation

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2021 and 2020

13. Pollution Remediation (continued)

In July of 2012, TCSD and CCSD No. 1 purchased the former Blue Heron property in West Linn, Oregon. The primary interest was in the existing industrial outfall and associated discharge permit. The discharge permit will address anticipated changes in the regulatory environment on the Willamette River. The property was transferred to WES as part of the consolidation completed June 30, 2018. On September 18, 2020, WES sold 36.3 of the 39 acres of the Blue Heron property to a private developer. The portion of land sold included the lagoons, regarding which there was a contingent remedial obligation. WES no longer has any remediation obligation with respect to the property, which was assigned and assumed by the purchaser.

14. Contingencies

COVID-19

In early 2020, cases of novel coronavirus (COVID-19) began surfacing in the United States and on the West Coast. In response to emerging local cases here in the State of Oregon, the Governor issued an Executive Order declaring a state of emergency on March 8, 2020, and issued an Executive Order to stay home on March 23, 2020. To date, the County has experienced various levels of shut downs and re-openings and is now combatting Delta, the 4th wave of the virus. It is unknown at this time what the exact economic impact will be to WES in the coming fiscal year.

15. Subsequent Events

On November 10, 2021 the Board of County Commissioners approved 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 Abernathy bridge. Per the terms of the agreement, during FY 2021-22, WES will make an advance deposit of the estimated project costs of \$9.26 million for ODOT to draw against as construction progresses over the project timeline, currently estimated to take several years. ODOT will construct the new sewer force main at the appropriate time in sequence with other bridge improvements.

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Supplementary Information



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

Basis of Accounting

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

Fund Descriptions

Sanitary Sewer Operating Fund

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

Sanitary Sewer System Development Charge Fund

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

State Loan Debt Service Fund

The State Loan Debt Service Fund accounts for payment of the Department of Environmental Quality loans. The primary resources are transfers from the Sanitary Sewer Operating Fund.

Revenue Bond Debt Service Fund

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

Sanitary Sewer Construction Fund

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

Surface Water Operating Fund

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

Surface Water System Development Charge Fund

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

Surface Water Construction Fund

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
SANITARY SEWER OPERATING FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2021
(with comparative totals for the year ended June 30, 2020)

	2021			2020 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Sanitary Sewer user charges	\$ 39,529,700	\$ 40,684,257	\$ 1,154,557	\$ 39,147,288
Interest on investments	127,600	325,086	197,486	270,456
System development charges	5,000	7,497	2,497	59,462
Special connection charges	250,000	224,461	(25,539)	452,580
Interest non-bonded installment	10,000	72,334	62,334	24,364
Operating grants	-	216,180	216,180	-
Intergovernmental revenue	244,300	-	(244,300)	-
Miscellaneous	465,720	710,654	244,934	974,633
Total revenues	40,632,320	42,240,469	1,608,149	40,928,783
EXPENDITURES:				
Materials and services	25,015,516	21,988,431	3,027,085	21,871,415
Contingency	4,169,000	-	4,169,000	-
Total expenditures	29,184,516	21,988,431	7,196,085	21,871,415
Revenues over (under) expenditures	11,447,804	20,252,038	8,804,234	19,057,368
OTHER FINANCING USES:				
Transfers to other funds:				
Revenue Bond Fund	(6,768,056)	(6,768,056)	-	(5,895,406)
State Loan Fund	(500,000)	(500,000)	-	-
Sanitary Sewer Construction Fund	(11,000,000)	(11,000,000)	-	(14,500,000)
Total transferred to other funds	(18,268,056)	(18,268,056)	-	(20,395,406)
Net change in fund balance	(6,820,252)	1,983,982	8,804,234	(1,338,038)
Fund balance - beginning	7,978,040	9,463,711	1,485,671	10,801,749
Fund balance - ending	<u>\$ 1,157,788</u>	11,447,693	<u>\$ 10,289,905</u>	<u>\$ 9,463,711</u>
Adjustment to GAAP basis:				
Mortgage connection receivable		221,863		
Capital assets (net of accumulated depreciation)		204,395,018		
Prepaid expenses		35,034		
Bonds receivable		1,187,086		
Interest receivable		2,678		
Due to other entities		(403,957)		
Bond assessments receivable		460,199		
Contracts receivable		2,098,714		
Other		(11,300)		
Net position - GAAP basis		<u>\$ 219,433,028</u>		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2021
(with comparative totals for the year ended June 30, 2020)

	2021			
	Original And Final Budget	Actual	Variance with Final Budget	2020 Actual
REVENUES:				
Connection charges	\$ 6,284,300	\$ 7,933,978	\$ 1,649,678	\$ 9,883,273
Interest on investments	577,400	374,483	(202,917)	652,450
Total revenues	6,861,700	8,308,461	1,446,761	10,535,723
EXPENDITURES:				
Capital Outlay	8,723,500	317,350	8,406,150	1,961,609
Contingency	2,180,875	-	2,180,875	-
Total expenditures	10,904,375	317,350	10,587,025	1,961,609
Revenues over (under) expenditures	(4,042,675)	7,991,111	12,033,786	8,574,114
Net change in fund balance	(4,042,675)	7,991,111	12,033,786	8,574,114
Fund balance - beginning	36,086,891	39,629,130	3,542,239	31,055,016
Fund balance - ending	\$ 32,044,216	47,620,241	\$ 15,576,025	\$ 39,629,130
Adjustment to GAAP basis:				
Interest receivable		8,470		
Net position - GAAP basis		\$ 47,628,711		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2021
(with comparative totals for the year ended June 30, 2020)

	2021				
	Original Budget	Final Budget	Actual	Variance with Final Budget	2020 Actual
REVENUES:					
Assessments collected	\$ 133,500	\$ 133,500	\$ 375,744	\$ 242,244	\$ 431,762
Interest on assessments	120,000	120,000	96,122	(23,878)	106,947
Interest on investments	13,500	13,500	11,951	(1,549)	26,934
Total revenues	267,000	267,000	483,817	216,817	565,643
EXPENDITURES:					
Principal	106,208	106,208	106,208	-	106,208
Interest	506,373	506,373	506,373	-	6,904
Total expenditures	612,581	612,581	612,581	-	113,112
Revenues over (under) expenditures	(345,581)	(345,581)	(128,764)	216,817	452,531
OTHER FINANCING SOURCES:					
Transfers from other funds:					
Sanitary Sewer Operating Fund	500,000	500,000	500,000	-	-
Sanitary Sewer Construction Fund	-	8,801,286	8,801,286	-	-
Total transferred from other funds	500,000	9,301,286	9,301,286	-	-
OTHER FINANCING USES:					
Transfers to other funds:					
Revenue Bond Fund	(200,000)	(200,000)	(14,937)	185,063	(900,000)
Net change in fund balance	(45,581)	8,755,705	9,157,585	401,880	(447,469)
Fund balance - beginning	841,979	841,979	832,122	(9,857)	1,279,591
Fund balance - ending	\$ 796,398	\$ 9,597,684	9,989,707	\$ 392,023	\$ 832,122
Adjustment to GAAP basis:					
Loans payable			(32,649,335)		
Long term debt			(40,000,000)		
Capitalized bond premium			(8,214,534)		
Interest receivable			2,239,030		
Net position - GAAP basis			\$ (68,635,132)		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2021
(with comparative totals for the year ended June 30, 2020)

	2021				2020 Actual
	Original Budget	Final Budget	Actual	Variance with Final Budget	
REVENUES:					
Interest collections	\$ 15,000	\$ 15,000	\$ 19,600	\$ 4,600	\$ 15,841
Interest on investments	6,300	6,300	2,887	(3,413)	5,612
Total revenues	<u>21,300</u>	<u>21,300</u>	<u>22,487</u>	<u>1,187</u>	<u>21,453</u>
EXPENDITURES:					
Principal	3,935,000	3,935,000	3,935,000	-	3,785,000
Interest	2,833,056	3,267,940	3,267,940	-	3,010,406
Total expenditures	<u>6,768,056</u>	<u>7,202,940</u>	<u>7,202,940</u>	<u>-</u>	<u>6,795,406</u>
Revenues over (under) expenditures	<u>(6,746,756)</u>	<u>(7,181,640)</u>	<u>(7,180,453)</u>	<u>1,187</u>	<u>(6,773,953)</u>
OTHER FINANCING SOURCES:					
Transfer from other funds:					
Sanitary Sewer Operating Fund	6,768,056	6,768,056	6,768,056	-	5,895,406
State Loan Debt Service Fund	200,000	200,000	14,937	(185,063)	900,000
Total transferred from other funds	<u>6,968,056</u>	<u>6,968,056</u>	<u>6,782,993</u>	<u>(185,063)</u>	<u>6,795,406</u>
Net change in fund balance	<u>221,300</u>	<u>(213,584)</u>	<u>(397,460)</u>	<u>(183,876)</u>	<u>21,453</u>
Fund balance - beginning	<u>392,707</u>	<u>392,707</u>	<u>397,460</u>	<u>4,753</u>	<u>376,007</u>
Fund balance - ending	<u>\$ 614,007</u>	<u>\$ 179,123</u>	<u>-</u>	<u>\$ (179,123)</u>	<u>\$ 397,460</u>
Adjustment to GAAP basis:					
Due from NCSA B&I			(1,187,086)		
Capitalized bond premium			(7,892,335)		
Long term debt			(77,080,000)		
Happy Valley lien			89,847		
Interest payable			(362,740)		
Net position - GAAP basis			<u>\$ (86,432,314)</u>		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2021
(with comparative totals for the year ended June 30, 2020)

	2021				2020 Actual
	Original Budget	Final Budget	Actual	Variance with Final Budget	
REVENUES:					
Interest on investments	\$ 699,900	\$ 699,900	\$ 361,001	\$ (338,899)	\$ 549,450
Miscellaneous	-	-	25,356	25,356	315,668
Total revenues	<u>699,900</u>	<u>699,900</u>	<u>386,357</u>	<u>(313,543)</u>	<u>865,118</u>
EXPENDITURES:					
Capital Outlay	29,124,500	29,124,500	16,161,614	12,962,886	31,923,535
Contingency	7,281,125	7,281,125	-	7,281,125	-
Total expenditures	<u>36,405,625</u>	<u>36,405,625</u>	<u>16,161,614</u>	<u>20,244,011</u>	<u>31,923,535</u>
Revenues over (under) expenditures	<u>(35,705,725)</u>	<u>(35,705,725)</u>	<u>(15,775,257)</u>	<u>19,930,468</u>	<u>(31,058,417)</u>
OTHER FINANCING SOURCES:					
Revenue from bonds and other debts:					
SRF Capital Project Contribution	9,100,000	9,100,000	11,756,443	2,656,443	10,789,434
Bond Proceeds	-	48,687,948	48,687,948	-	-
Total revenue from bonds and other debts	<u>9,100,000</u>	<u>57,787,948</u>	<u>60,444,391</u>	<u>2,656,443</u>	<u>10,789,434</u>
Transfer from other funds:					
Sanitary Sewer Operating Fund	11,000,000	11,000,000	11,000,000	-	14,500,000
OTHER FINANCING USES:					
Transfers to other funds:					
State Loan Fund	-	(8,801,286)	(8,801,286)	-	-
Net change in fund balance	<u>(15,605,725)</u>	<u>24,280,937</u>	<u>46,867,848</u>	<u>22,586,911</u>	<u>(5,768,983)</u>
Fund balance - beginning	<u>43,746,421</u>	<u>43,746,421</u>	<u>38,079,979</u>	<u>(5,666,442)</u>	<u>43,848,962</u>
Fund balance - ending	<u>\$ 28,140,696</u>	<u>\$ 68,027,358</u>	<u>84,947,827</u>	<u>\$ 16,920,469</u>	<u>\$ 38,079,979</u>
Adjustment to GAAP basis:					
Interest receivable			<u>16,270</u>		
Net position - GAAP basis			<u>\$ 84,964,097</u>		

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, 2021
(with comparative totals for the year ended June 30, 2020)

	2021			
	Original And Final Budget	Actual	Variance with Final Budget	2020 Actual
REVENUES:				
Surface water user charges	\$ 5,311,400	\$ 5,502,982	\$ 191,582	\$ 5,163,571
Interest on investments	126,900	76,584	(50,316)	189,966
Miscellaneous income	262,500	227,034	(35,466)	519,769
	<u>5,700,800</u>	<u>5,806,600</u>	<u>105,800</u>	<u>5,873,306</u>
EXPENDITURES:				
Materials and services	5,089,029	4,436,257	652,772	4,244,759
Contingency	848,000	-	848,000	-
	<u>5,937,029</u>	<u>4,436,257</u>	<u>1,500,772</u>	<u>4,244,759</u>
Revenues over (under) expenditures	<u>(236,229)</u>	<u>1,370,343</u>	<u>1,606,572</u>	<u>1,628,547</u>
OTHER FINANCING USES:				
Transfers to other funds:				
Surface Water Construction Fund	(3,000,000)	(3,000,000)	-	(3,000,000)
	<u>(3,236,229)</u>	<u>(1,629,657)</u>	<u>1,606,572</u>	<u>(1,371,453)</u>
Fund balance - beginning	7,932,702	8,498,021	565,319	9,869,474
Fund balance - ending	<u>\$ 4,696,473</u>	<u>6,868,364</u>	<u>\$ 2,171,891</u>	<u>\$ 8,498,021</u>
Adjustment to GAAP basis:				
Due from Sanitary Sewer Operating Fund		124,015		
Capital assets (net of accumulated depreciation)		24,920,739		
Interest receivable		1,151		
Net position - GAAP basis		<u>\$ 31,914,269</u>		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2021
(with comparative totals for the year ended June 30, 2020)

	2021			
	Original And Final Budget	Actual	Variance with Final Budget	2020 Actual
REVENUES:				
System development charges	\$ 118,300	\$ 167,739	\$ 49,439	\$ 161,094
Interest on investments	36,500	20,880	(15,620)	39,714
Total revenues	154,800	188,619	33,819	200,808
EXPENDITURES:				
Total expenditures	-	-	-	-
Revenues over (under) expenditures	154,800	188,619	33,819	200,808
Net change in fund balance	154,800	188,619	33,819	200,808
Fund balance - beginning	2,281,946	2,285,354	3,408	2,084,546
Fund balance - ending	\$ 2,436,746	2,473,973	\$ 37,227	\$ 2,285,354
Adjustment to GAAP basis:				
Interest receivable		446		
Net position - GAAP basis		\$ 2,474,419		

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, 2021
(with comparative totals for the year ended June 30, 2020)

	2021			2020 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Interest on investments	\$ 52,800	\$ 28,590	\$ (24,210)	\$ 17,955
Miscellaneous	-	-	-	15,910
Total revenues	<u>52,800</u>	<u>28,590</u>	<u>(24,210)</u>	<u>33,865</u>
EXPENDITURES:				
Capital outlay	2,141,500	720,126	1,421,374	716,375
Contingency	535,375	-	535,375	-
Total expenditures	<u>2,676,875</u>	<u>720,126</u>	<u>1,956,749</u>	<u>716,375</u>
Revenues over (under) expenditures	<u>(2,624,075)</u>	<u>(691,536)</u>	<u>1,932,539</u>	<u>(682,510)</u>
OTHER FINANCING SOURCES:				
Transfer from other funds:				
Surface Water Operating Fund	<u>3,000,000</u>	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
Net change in fund balance	<u>375,925</u>	<u>2,308,464</u>	<u>1,932,539</u>	<u>2,317,490</u>
Fund balance - beginning	<u>3,297,331</u>	<u>3,395,121</u>	<u>97,790</u>	<u>1,077,631</u>
Fund balance - ending	<u>\$ 3,673,256</u>	<u>5,703,585</u>	<u>\$ 2,030,329</u>	<u>\$ 3,395,121</u>
Adjustment to GAAP basis:				
Interest receivable		<u>1,038</u>		
Net position - GAAP basis		<u>\$ 5,704,623</u>		

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
 SUMMARY OF NET POSITION
 BY FUND
 for the year ended June 30, 2021

Fund	Description	Net Position GAAP Basis
631	Sanitary Sewer Operating Fund	\$ 219,433,028
632	Sanitary Sewer System Development Charge Fund	47,628,711
635	State Loan Debt Service Fund	(68,635,132)
636	Revenue Bond Debt Service Fund	(86,432,314)
639	Sanitary Sewer Construction Fund	84,964,097
641	Surface Water Operating Fund	31,914,269
642	Surface Water System Development Charge Fund	2,474,419
649	Surface Water Construction Fund	5,704,623
	Total Net Position	\$ 237,051,701

Statistical Section



STATISTICAL SECTION

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

WES was formed on November 16, 2016 with no activity prior to July 1, 2017. As such, data for years prior to 2018 is not available for WES. Reference may be made to the prior fiscal year financial reports for WES' member districts, the Tri-City Service District and Clackamas County Service District No. 1, for comparison with FY's 2021 through FY 2018 statistics.

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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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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
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

	2021	2020	2019	2018
Operating revenues:				
Sanitary Sewer user charges	\$ 40,379,418	\$ 38,869,238	\$ 36,790,480	\$ 8,542,389
Surface Water user charges	5,502,982	5,163,571	4,910,321	185,646
Intergovernmental revenues	-	-	-	375,145
Other operating revenues	987,048	1,361,246	1,007,099	285,617
Total operating revenues	46,869,448	45,394,055	42,707,900	9,388,797
Operating expenses:				
Contracted salaries and benefits	13,369,676	13,300,131	12,337,188	2,639,533
Professional services	1,987,953	2,135,318	1,181,977	408,852
Laboratory services	93,514	65,272	31,724	247,851
Other County services	3,046,288	2,879,695	2,897,557	606,616
Supplies	3,034,936	3,248,542	2,904,075	1,488,169
Vehicle expenses	930,344	791,322	815,631	181,037
Repairs and maintenance	779,829	579,479	960,286	88,552
Utilities	1,887,324	1,602,852	1,767,914	685,523
Insurance	394,858	439,037	404,918	163,480
Other expenses	720,138	815,143	849,742	173,503
Depreciation and amortization	20,664,890	20,031,956	20,082,869	2,571,997
Total operating expenses	46,909,750	45,888,747	44,233,881	9,255,113
Operating income (loss)	(40,302)	(494,692)	(1,525,981)	133,684
Nonoperating revenues (expenses):				
Interest income	1,080,151	1,762,557	1,806,268	189,261
Interest expense	(3,324,067)	(3,960,237)	(4,896,003)	-
Federal and state grants	216,180	173,504	-	-
Dispatchable power	11,300	69,100	69,100	-
Loss on disposal of capital assets	(440,983)	(197,017)	(45,338)	(4,761)
Total nonoperating revenues (expenses)	(2,457,419)	(2,152,093)	(3,065,973)	184,500
Income (loss) before contributions and special item	(2,497,721)	(2,646,785)	(4,591,954)	318,184
Contributions:				
Connection charges	8,326,178	10,520,618	5,346,829	827,629
Capital contributions	2,298,112	7,205,704	5,034,881	145,208
Total contributions	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	\$ 8,126,569	\$ 15,079,537	\$ 161,354,927	\$ 1,291,021

Source: WES' Annual Comprehensive Financial Report

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

USER FEE REVENUE BY CUSTOMER TYPE
Last Ten Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Sanitary Sewer user charges				
Cities	\$ 14,784,587	\$ 14,346,181	\$ 13,801,878	\$ 8,308,939
Residential	12,771,561	12,194,781	11,400,628	196,864
Commercial	3,472,927	3,427,806	3,312,205	28,522
Industrial	1,389,421	1,134,271	884,807	-
Other	<u>7,960,922</u>	<u>7,766,199</u>	<u>7,390,962</u>	<u>8,064</u>
Total Sanitary Sewer user charges	<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	\$ 2,007,986	\$ 1,826,448	\$ 1,713,821	\$ 148,106
Commercial	3,131,932	2,987,651	2,854,696	-
Other	<u>363,064</u>	<u>349,472</u>	<u>341,804</u>	<u>37,540</u>
Total Surface Water user charges	<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

	2021	2020	2019	2018
Sewer Rates per EDU ⁽¹⁾				
Residential Customers				
Rate Zone 1	\$ 38.25	\$ 36.40	\$ 33.25	\$ 32.00
Rate Zone 2	51.25	50.55	48.15	-
Wholesale Customers				
Rate Zone 1	\$ 24.95	\$ 23.75	\$ 23.00	\$ 22.15
Rate Zone 2	37.95	37.90	36.10	-
Surface Water Rates per ESU ⁽²⁾				
Rate Zone 2	\$ 7.65	\$ 7.30	\$ 6.95	\$ -
Rate Zone 3	4.65	4.45	4.25	4.10

⁽¹⁾ EDU - Equivalent Dwelling Unit; Residential Sanitary Sewer EDU's equal one dwelling unit; commercial Sanitary Sewer EDU's equal 1 EDU per each 1,000 cu ft or fraction thereof per month of metered water consumption.

⁽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

	2021	2020	2019	2018
Sanitary Sewer				
Connection fee/EDU ⁽¹⁾				
Rate Zone 1	\$ 8,005	\$ 7,850	\$ 3,490	\$ 3,125
Rate Zone 2	8,005	7,850	7,615	7,330
Total Connection Revenue	\$ 8,158,439	\$ 10,359,524	\$ 5,206,286	\$ 827,629
Surface Water				
Connection fee/ESU ⁽²⁾				
Rate Zone 2	\$ 215	\$ 211	\$ 205	\$ -
Total Connection Revenue	\$ 167,739	\$ 161,094	\$ 140,543	\$ -

⁽¹⁾ EDU - Equivalent Dwelling Unit; Residential EDU's equal one dwelling unit; commercial EDU's equal 1,900 sq. ft. of interior floor space or per quarter acre of land.

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

Source: WES' Records

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

PRINCIPAL RATEPAYERS WITHIN WES ⁽¹⁾
Last Ten Fiscal Years

Customer	2021		2020		2019		2018	
	Revenue	Rank	Revenue	Rank	Revenue	Rank	Revenue	Rank
City of Milwaukie	\$ 5,198,998	1	\$ 5,182,522	1	\$ 4,912,993	1	\$ 4,313,782	1
City of Oregon City	4,985,657	2	4,776,650	2	4,621,023	2	2,827,032	2
City of West Linn	3,163,254	3	3,034,254	3	2,945,391	3	1,168,125	3
City of Gladstone	1,310,077	4	1,226,320	4	1,202,042	4		
Forum Clackamas Campus	752,005	5	442,326	6	277,008	7		
Precision Castparts	552,083	6	571,400	5	556,110	5		
Kaiser Hospital	374,839	7	354,979	7	373,687	6		
Riverwalk Happy Valley Apartments	247,965	8	244,357	8	232,753	8		
Big Reflections OR LLC	242,063	9	238,351	9	227,029	9		
Sun Country Village LLC	232,713	10	221,458	10				
Crown Court Apartments	219,253	11	215,893	11	205,638	10		
Townhomes with a View Condo Assoc. ⁽²⁾	211,497	12	208,196	12	198,305	11		
The Overlook at Causey Lane	182,932	13	180,029	13	171,476	13		
Clackamas Trails Apartments	176,304	14	173,587	14	165,341	14		
Clackamas Town Center	174,325	15	170,356	15	174,380	12		
Easton Ridge Apartments	172,889	16	170,210	16	162,124	15		
Hawksridge Apartments	162,126	17	159,626	17	152,241	16		
Oak Acres Mobile Home Park	155,516	18	152,269	18	145,024	17		
Squire's Court Apartments	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	\$ 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.

Source: WES' Records

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

RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Revenue Bonds and Obligations	Loans Payable	Total	Percentage of Personal Income	Per Capita
2021	\$ 133,186,869	\$ 32,649,335	\$ 165,836,204	N/A %	\$ 880
2020	89,433,491	20,999,100	110,432,591	N/A	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, 2021

Governmental Unit	Debt Outstanding	Percent Overlapping	Overlapping General Obligation Bonded Debt
Debt repaid with property taxes			
City of Gladstone	\$ 3,532,601	73.77 %	\$ 2,606,000
City of Oregon City	13,105,000	99.33	13,017,197
City of West Linn	29,275,000	99.96	29,263,290
Clackamas Community College	84,925,428	20.25	17,197,399
Clackamas County	125,400,000	14.99	18,797,460
Clackamas County Education Service District	23,805,136	15.71	3,739,787
Clackamas County Rural Fire Protection District #1	26,735,165	14.84	3,967,498
Clackamas County School District #115 (Gladstone)	31,257,093	72.14	22,548,867
Clackamas County School District #12 (North Clackamas)	693,051,684	0.27	1,871,240
Clackamas County School District #3J (West Linn/Wilsonville)	348,463,289	44.13	153,776,849
Clackamas County School District #46 (Oregon Trail)	80,032,758	100.00	80,032,758
Clackamas County School District #62 (Oregon City)	201,596,986	58.77	118,478,549
Clackamas County School District #7J (Lake Oswego)	255,972,910	0.32	819,113
Clackamas Soil & Water Conservation	6,144,000	14.99	920,986
Metro	920,585,000	3.68	33,877,528
Mt Hood Community College	19,160,000	16.50	3,161,400
Multnomah County School District #28J (Centennial)	64,567,710	7.81	5,042,738
Portland Community College	545,535,000	0.02	109,107
Tualatin Valley Fire & Rescue District	17,325,000	5.39	933,818
Other Debt			
City of Oregon City	14,249,934	99.33	14,154,459
Clackamas Community College	19,930,000	20.25	4,035,825
Clackamas County Rural Fire Protection District #1	12,600,000	14.84	1,869,840
Clackamas County School District #12 (North Clackamas)	1,887,369	0.27	5,096
Clackamas County School District #62 (Oregon City)	230,554	58.77	133,191
Metro	37,995,000	3.68	1,398,216
Mt. Hood Community College	30,460,059	16.50	5,025,910
Multnomah County Education Service District	23,395,000	1.45	339,228
Port of Portland	51,330,000	3.38	1,734,954
Portland Community College	62,440,000	0.02	12,488
Tualatin Valley Fire & Rescue District	8,710,000	5.39	469,469
Total overlapping debt	\$ 3,753,697,676		\$ 539,340,260

⁽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>2021</u>	<u>2020</u>	<u>2019</u>
Gross Revenues			
Monthly Service Charges	\$ 31,097,813	\$ 29,686,628	\$ 27,898,923
Operating Payment from Cities	14,784,587	14,346,181	13,801,878
Interest Earnings	1,080,151	1,762,557	1,806,268
Miscellaneous Income	987,048	1,361,246	1,007,099
Capital Charge Revenues	224,461	452,580	298,389
System Development Charges	8,101,717	10,044,368	4,888,525
Other Connection Charges	-	23,670	159,915
Total Gross Revenues	\$ 56,275,777	\$ 57,677,230	\$ 49,860,997
Operating Expenses			
Operation, Maintenance & Replacements	26,244,860	25,856,791	24,151,012
Total Operating Expenses	26,244,860	25,856,791	24,151,012
Net Operating Revenues	\$ 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	5,911,257	4,426,006	3,256,231
Series 2021	434,883	-	-
Total Revenue Bond Debt Service	\$ 7,202,940	\$ 6,795,406	\$ 6,873,981
Revenue Bonds Debt Service Coverage	4.17	4.68	3.74
Revenue Bonds Coverage without SDC's	3.04	3.20	3.03
Revenues Available for State Revolving Fund Loans	\$ 22,827,977	\$ 25,025,033	\$ 18,836,004
State Revolving Fund Loan Debt Service			
R06224	112,581	106,208	106,208
R95030	500,000	-	-
Total State Revolving Loan Debt Service	\$ 612,581	\$ 106,208	\$ 106,208
Revenues Available for Other Purposes	\$ 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)
2021	188,381	N/A	N/A	4.9 %
2020	184,648	N/A	N/A	11.2
2019	182,901	\$ 11,289,739,719	\$ 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 2020 and 2021 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	2021			2012		
	Employees	Rank	Percentage of Total ⁽²⁾	Employees	Rank	Percentage of Total ⁽²⁾
Intel Corp.	21,394	1	0.02 %	15,636	2	0.01 %
Providence Health & Services	19,326	2	0.02	12,800	3	0.01
Oregon Health & Sciences University	17,441	3	0.01	12,000	5	0.01
Legacy Health	12,896	4	0.01	9,732	7	0.01
Nike Inc.	12,000	5	0.01	7,000	10	0.01
Kaiser Permanente	11,910	6	0.01	9,039	8	0.01
Fred Meyer	8,163	7	0.01	9,858	6	0.01
City of Portland	7,409	8	0.01	8,876	9	0.01
Portland Public Schools	7,005	9	0.01			
Beaverton School District	5,646	10	0.00			
State of Oregon				18,400	1	0.02
U.S. Federal Govt.				13,900	4	0.01
Total	<u>123,190</u>		<u>0.11 %</u>	<u>117,241</u>		<u>0.11 %</u>

Sources:

(1) Statistics are the latest available data published in the Portland Business Journal *Book of Lists 2021* and *Book of Lists 2012*. 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

	2021	2020	2019	2018
Function				
Business Services	21.7	22.2	22.6	2.8
Capital Planning and Management	17.4	17.0	16.4	4.3
Environmental Services	20.5	19.4	19.6	2.5
Operations	56.4	53.4	51.4	18.1
Total	116.0	112.0	110.0	27.7

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

	2021	2020	2019	2018
Sanitary Sewer				
Number of Treatment Plants	5	5	5	1
Number of Pump Stations	21	21	21	4
Miles of Pipe	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
System Demand - Current flows (in million gallons/day)	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	-
System Demand - Current flows (in million gallons/day)	6.40	5.65	6.09	-
Estimated Sanitary EDUs ⁽¹⁾	81,996	81,267	79,194	30,152
Number of New Connections	992	1,260	727	262
Surface Water				
Catch Basins / Manholes	17,648	16,188	15,626	260
Miles of pipe	328.92	328.74	325.20	4.67
Estimated Surface Water ESUs ⁽²⁾	58,208	57,054	56,091	3,813

In Fiscal Year 2021, this chart was revised for prior year data.

⁽¹⁾ EDU - Equivalent Dwelling Unit; Residential Sanitary Sewer EDU's equal one dwelling unit; commercial Sanitary Sewer EDU's equal 1 EDU per each 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, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise WES' basic financial statements, and have issued our report thereon dated November 19, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WES' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Moss Adams LLP

Portland, Oregon
November 19, 2021

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

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

We have audited the basic financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, as of and for the years ended June 30, 2021 and 2020, respectively, and have issued our report thereon dated November 19, 2021. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether WES' basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-0000 to 162-10-0330, as set forth below, noncompliance with which could have a direct and material effect on the financial statement amounts:

- The use of approved depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal year 2021 and 2022.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Oregon Secretary of State.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered WES' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WES' internal control. 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of WES' financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Purposes of This Report

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



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