



CLACKAMAS
WATER
ENVIRONMENT
SERVICES

ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the fiscal years ended June 30, 2023 and 2022

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, 2023 and 2022

Prepared by:
WATER ENVIRONMENT SERVICES
Financial Management Program

Ron Wierenga, Assistant Director
Erin Blue, Finance Manager

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

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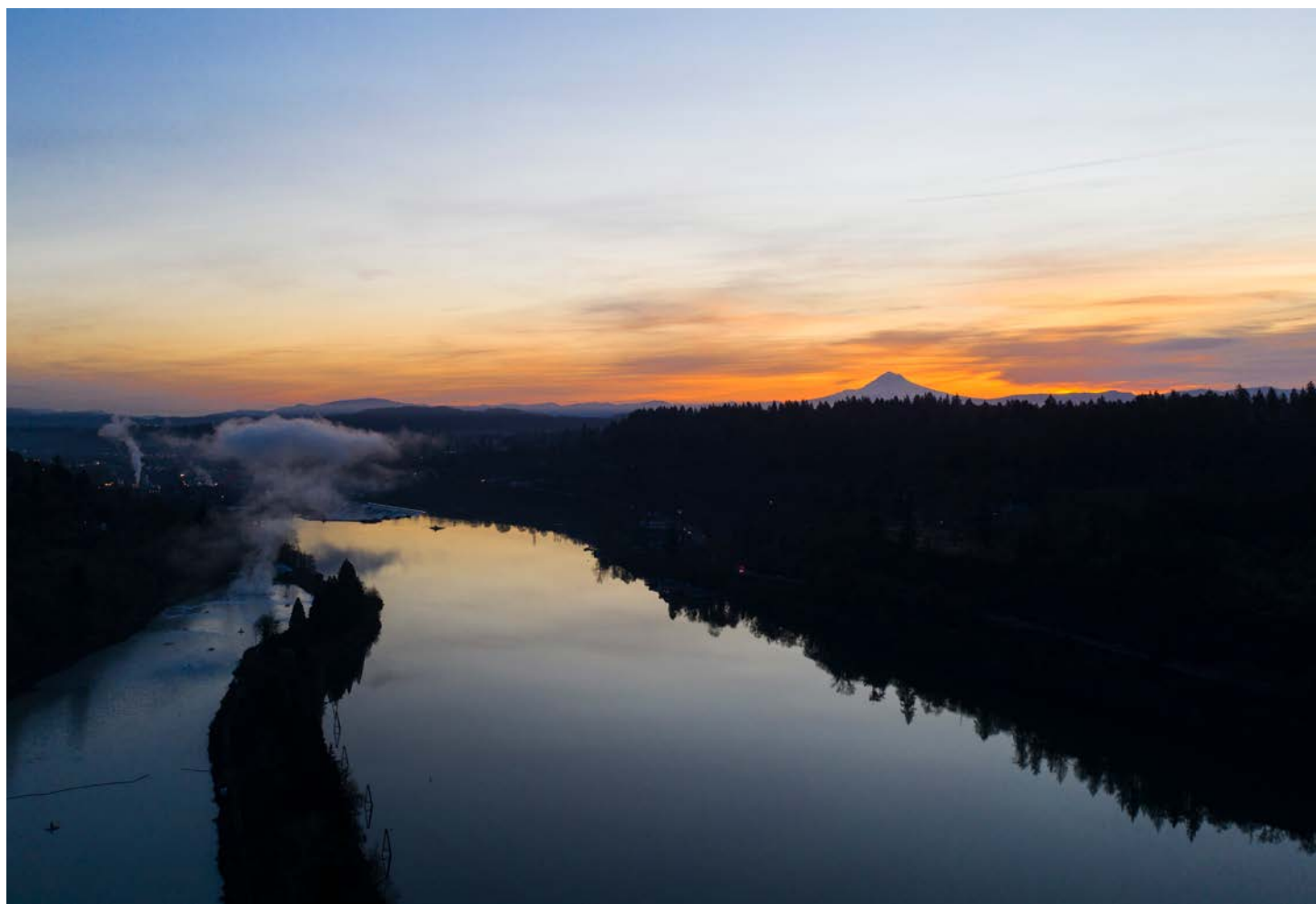
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(A Component Unit of Clackamas County, Oregon)

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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, 2023

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

ADMINISTRATIVE OFFICES

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

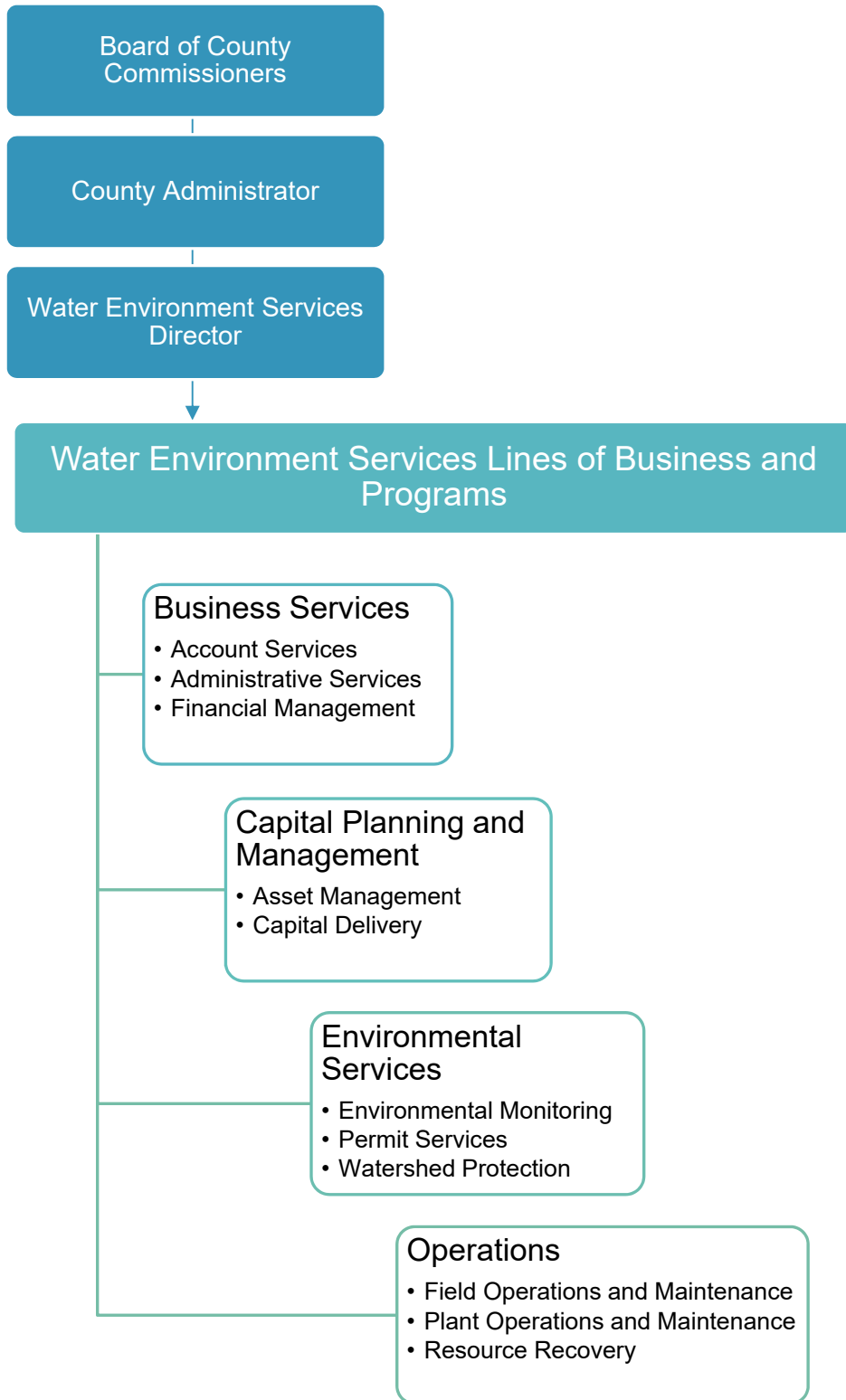
DISTRICT ADMINISTRATOR

Gary Schmidt
2051 Kaen Road
Oregon City, Oregon 97045

REGISTERED AGENT

Greg Geist
150 Beaver Creek Road
Oregon City, Oregon 97045

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
FY 2023





November 22, 2023

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, 2023, 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, 2023, 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
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Independent Audit

The provisions of ORS Sections 297.405 through 297.555, known as "Oregon Municipal Audit Law" require that an independent audit of WES' records be made within six months following the close of the fiscal year.

The accounting firm of Moss Adams LLP was selected to perform the audit for the years ended June 30, 2023 and 2022. The Report of Independent Auditors for WES' financial statements is located at the beginning of the Financial Section of this report.

Water Environment Services Profile

Water Environment Services is a municipal partnership created in November 2016 through an Oregon Revised Statute (ORS) 190 agreement (the Agreement) between Clackamas County Service District No. 1 (CCSD No. 1) (sewer and surface water management) and the Tri-City Service District (TCSD) (sewer services). The Agreement was amended in May of 2017 to also include the Surface Water Management Agency of Clackamas County (SWMACC) (surface water management). Each of CCSD No. 1, SWMACC and TCSD are separate legal entities organized under the provisions of ORS Chapter 451. This enabling legislation established County service districts as independent municipal corporations authorized to provide a specific service within specified boundaries. These entities jointly partnered in the delivery of services to customers by forming WES. On July 1, 2017, the assets and operations of TCSD and SWMACC were transferred into WES; CCSD No. 1 was transferred on July 1, 2018. WES functions as a single, combined entity formed by the three original districts. Prior to fiscal year (FY) 2018, each of these were separate legal entities and therefore audited financial statements were prepared for each. From FY 2019 and forward, audited financial statements are prepared for WES only.

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

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

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

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

WES performs surface water and stormwater management for the purpose of providing nonpoint source pollution controls to meet state and federal regulations. This includes the construction of capital improvements to address surface water quality and quantity, conducting basin analyses and other studies to locate and prioritize necessary capital improvements, and to engage in non-structural solutions including, but not limited to: maintenance of surface water facilities, public education, water quality monitoring programs, and preparation of intergovernmental agreements for a regional approach to surface water quality and quantity matters.

Relevant Financial Policies

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

Local Economy

As described above, WES is located in Clackamas County, Oregon. Clackamas County encompasses an area of approximately 1,884 square miles, and according to the most recent demographic data, has a population of approximately 430 thousand as of June 2022. WES' service area is a subset of the County encompassing approximately 66 square miles with an estimated service area population of approximately 197 thousand. Clackamas County's unemployment rate as of June 2023 is 3.3%, the same as the unemployment rate at June 2022, and a decrease from a high of 11.2% in 2020.

Board of County Commissioners of Clackamas
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Over the past three years, WES’ total number of sanitary sewer equivalent dwelling units have increased by an average of 1.0% annually. In December of 2022, FCS Group completed a population growth forecast for WES. The study, which analyzed historic trends and local growth forecasts adopted by cities within WES’ service area, aligns with recent observed growth, and estimates an average annual growth rate of 1.0% continuing for the next five years. This forecast is being used in capital and financial planning efforts.

Long-term Planning and Major Initiatives

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

During FY 2022-23, staff completed a new strategic plan for FYs 2024 - 2026 which will address the issues WES is facing and position WES for success in the future. A major initiative for FY 2023-24 will be implementing this new plan, which is centered on the seven key strategies outlined below.

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

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

In addition to the new strategic plan, WES has a comprehensive wastewater master plan which sets forth capital needs for the next 20 years, and a storm system master plan, completed in 2022, which provides short- and medium-term recommendations for capital improvements and programmatic system improvements. The currently adopted Capital Improvement Plan (CIP) for FY 2022 - 2027 is based on these master plans and projects approximately \$192.0 million in wastewater capital investment and \$9.2 million in surface water capital investment over that five year period. Our ability to achieve that level of investment depends on variables outside of our control, including growth rates, regional economic factors, supply chain disruptions, adequate personnel, and construction expertise. Insofar as the variables are within WES' control, we anticipate being able to complete the identified projects.

WES' long-range financial planning anticipates meeting the capital investment needs identified in WES' CIP while ensuring resources are sufficient to provide for ongoing operating and maintenance needs. A key objective of WES' long-range financial planning is developing a rate structure where future rate increases are steady, predictable, and affordable while sustaining services and providing capital funding. This objective and careful financial planning over the past several years have enabled WES to provide sufficient funding for capital improvements and meet operating and maintenance needs with a combined residential wastewater and surface water monthly service rate increase averaging approximately 2.9% annually.

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, 2022. 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.

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

GFOA Distinguished Budget Presentation Award

WES received the GFOA's Distinguished Budget Presentation Award for its annual budget for the 2022-23 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.

Acknowledgments

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Greg Geist". The signature is written in a cursive style with a large initial "G" and a long horizontal stroke at the end.

Greg Geist
Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Water Environment Services
Oregon**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

Executive Director/CEO

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Financial Section



Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, which comprise the statements of net position as of June 30, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise WES' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of WES as of June 30, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise WES' basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information referred to above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

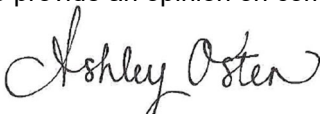
In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated.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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2023 on our consideration of WES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of WES' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WES' internal control over financial reporting and compliance.

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

In accordance with the *Minimum Standards for Audits of Oregon Municipal Corporations*, we have also issued our report dated November 22, 2023, on our consideration of WES' compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-010-0000 through 162-010-0330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Ashley Osten, Partner
For Moss Adams LLP
Portland, Oregon
November 22, 2023

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2023

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, 2023. We encourage readers to consider the information presented here in conjunction with the Basic Financial Statements, the Notes to the Basic Financial Statements, and the additional information contained in the Letter of Transmittal. All dollar amounts, unless otherwise indicated, are expressed in thousands.

Financial Highlights

- WES' assets exceeded its liabilities and deferred inflows of resources (also defined as net position) at the close of the fiscal year (FY) by \$268,830. This amount reflects an increase of \$16,435 or 6.5% from FY 2022 and \$31,778 or 13.4% since FY 2021. For the fiscal year ended June 30, 2023, total net position of \$268,830 includes unrestricted net position of \$102,028 that may be used to meet our ongoing obligations of providing wastewater collection and treatment, and surface water services.
- WES' total assets increased by \$14,041 to \$433,711 in FY 2023 from \$419,670 in FY 2022 and \$411,497 in FY 2021. The change from FY 2022 includes an increase in current assets of \$13,947, a decrease in other assets, net, of \$304, an increase in capital assets, net, of \$2,809, and a decrease in restricted noncurrent assets of \$2,411.
- Total liabilities and deferred inflows of resources decreased by \$2,394 to \$164,881 in FY 2023, decreased by \$7,170 to \$167,275 in FY 2022, and increased by \$55,869 to \$174,445 in FY 2021. The decrease in FY 2023 resulted from a decrease of \$8,068 in noncurrent liabilities and a decrease of \$72 in deferred inflows of resources which were partially offset by an increase in current liabilities of \$5,746.
- Total net position in FY 2023 increased \$16,435 mainly due to capital contributions from developers and connection charges, as well as an increase in interest income. Total net position increased \$15,343 in FY 2022 from FY 2021.
- Total operating revenues increased by \$2,203 over FY 2022 and total operating expenses increased by \$2,010. These combined changes resulted in an increase in operating income of \$193. From FY 2021 to FY 2022, total operating revenues increased by \$731 and total operating expenses decreased by \$4,406.
- In FY 2023 nonoperating revenues increased \$3,801 and nonoperating expenses decreased \$1,151. From FY 2021 to FY 2022, nonoperating revenues decreased \$360 and nonoperating expenses increased \$645.

Overview of the Financial Statements

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2023

Overview of the Financial Statements (Continued)

The Statements of Net Position present information on all of WES’ assets, liabilities, and deferred outflows/inflows of resources, with the net difference between these components reported as net position. Over time, changes in net position may serve as a useful indicator of whether WES’ financial position is improving or deteriorating.

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

The Statements of Cash Flows present cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

The basic financial statements can be found on pages 13 through 17 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide statements. The Notes to the Basic Financial Statements can be found on pages 18 through 38 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 39.

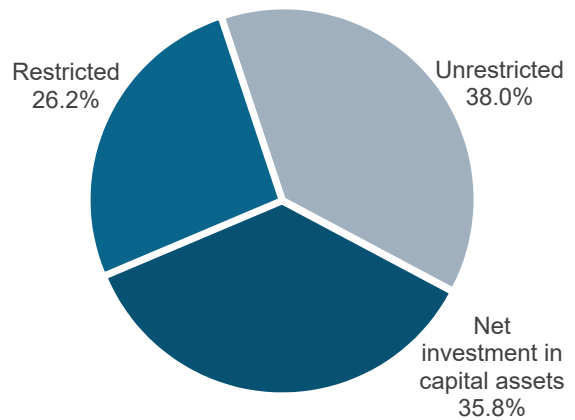
Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of financial position. In the case of WES, assets exceeded liabilities and deferred inflows of resources by \$268,830 at the close of FY 2023.

Of WES’ total net position, 35.8% reflects its net investment in capital assets, consisting of treatment facilities, land, conveyance systems, buildings, machinery and equipment, vehicles, construction work in progress and intangible assets, less any related outstanding debt that was used to acquire those assets. These assets are used to provide services to WES’ customers; therefore this amount is not available for spending.

Restricted net position account for 26.2% and represents resources that are subject to external restrictions on how they may be used. This component includes revenue bond proceeds, state loans, advance deposits for capital projects, and system development charges.

The remaining 38.0% of total net position is unrestricted. These items have no external restriction concerning their use or function and may be used to finance day-to-day operations.



WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2023

Financial Analysis (Continued)

The condensed statements below offer a comparison of assets, liabilities, deferred inflows of resources, and net position at June 30, 2023, 2022 and 2021:

Net Position			
(In Thousands of Dollars)			
	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Current assets	\$ 144,595	\$ 130,648	\$ 118,704
Other assets, net	3,660	3,964	4,114
Noncurrent assets - restricted	60,246	62,657	59,363
Capital assets, net	<u>225,210</u>	<u>222,401</u>	<u>229,316</u>
Total assets	<u>433,711</u>	<u>419,670</u>	<u>411,497</u>
Current liabilities	17,505	11,759	14,905
Noncurrent liabilities	<u>147,195</u>	<u>155,263</u>	<u>159,540</u>
Total liabilities	<u>164,700</u>	<u>167,022</u>	<u>174,445</u>
Total deferred inflows of resources	<u>181</u>	<u>253</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>164,881</u>	<u>167,275</u>	<u>174,445</u>
Net investment in capital assets	96,289	103,990	112,167
Restricted for capital projects	64,029	70,634	49,480
Restricted for debt service	6,484	9,871	9,544
Unrestricted	<u>102,028</u>	<u>67,900</u>	<u>65,861</u>
Total net position, end of year	<u>\$ 268,830</u>	<u>\$ 252,395</u>	<u>\$ 237,052</u>

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2023

Financial Analysis (Continued)

The condensed statements below offer a comparison of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2023, 2022 and 2021.

Changes in Net Position

(In Thousands of Dollars)

	2023	2022	2021
Sanitary Sewer user charges	\$ 42,256	\$ 40,803	\$ 40,379
Surface Water user charges	6,034	5,677	5,503
Other operating revenues	1,513	1,120	987
Operating revenues	49,803	47,600	46,869
Interest income	4,749	895	1,080
Other	-	53	228
Nonoperating revenues	4,749	948	1,308
Total Revenues	54,552	48,548	48,177
Contracted salaries and benefits	13,952	13,266	13,369
Material and services	30,561	29,237	33,540
Operating expenses	44,513	42,503	46,909
Interest expense	3,125	3,846	3,324
Other	134	564	441
Nonoperating expenses	3,259	4,410	3,765
Total expenses	47,772	46,913	50,674
Income (loss) before contributions	6,780	1,635	(2,497)
Contributions	9,655	13,708	10,624
Change in net position	16,435	15,343	8,127
Net position - beginning of year	252,395	237,052	228,925
Net position - end of year	\$ 268,830	\$ 252,395	\$ 237,052

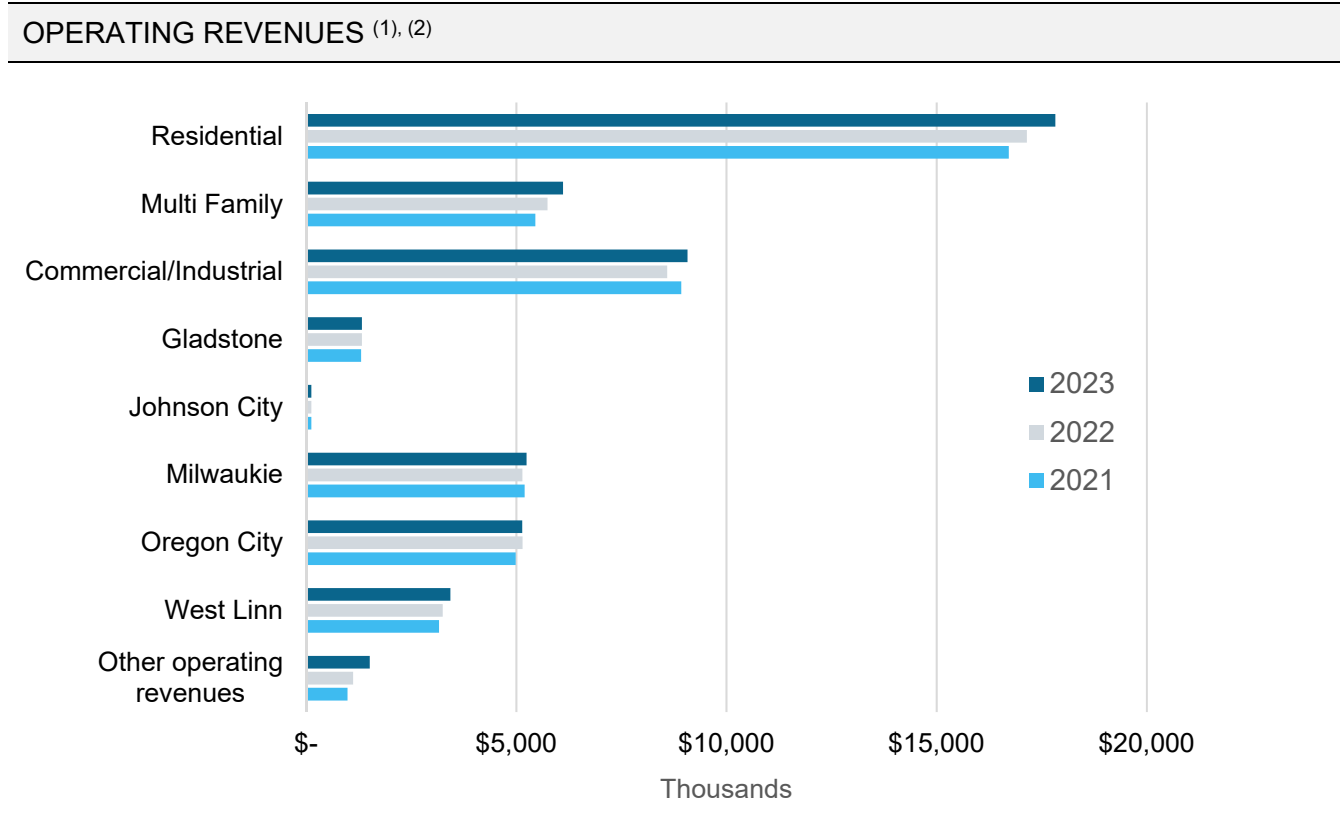
As shown in the schedule above, overall, WES' net position increased by \$16,435 or 6.5% in FY 2023 over FY 2022, and by \$15,343 or 6.5% in FY 2022 over FY 2021.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2023

Financial Analysis (Continued)

In both FY 2023 and FY 2022, operating revenues exceeded operating expenses. Total operating revenues in FY 2023 increased \$2,203, or 4.6%, to \$49,803. Operating revenues in FY 2022 and FY 2021 were \$47,600 and \$46,869, respectively. Revenue from sanitary sewer user charges increased \$1,453 or 3.6%, and revenues from surface water user charges increased \$357 or 6.3%. These increases were due to monthly rate increases for FY 2023 that ranged from 0% to 5.32%, depending on the type of service, as well as residential and multifamily customer growth in the service area. Revenue from commercial and industrial customers increased in FY 2023 following a decrease in FY 2022 from FY 2021 due to pandemic-related business closures.

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



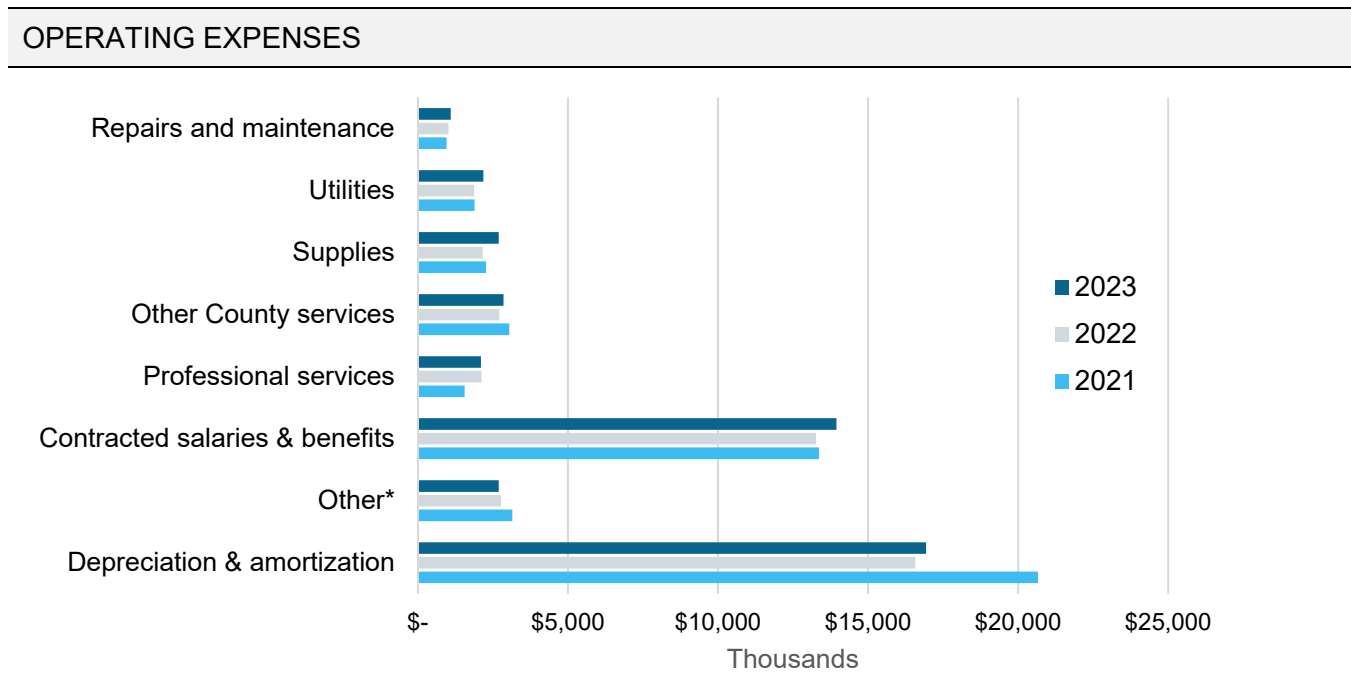
⁽¹⁾ Beginning in FY 2023, operating revenues for the cities of Gladstone and Oregon City in the chart above reflect a reclassification of the related city right-of-way charges to other operating revenues. In prior fiscal years, these amounts were included with city sewer revenue.

⁽²⁾ A portion of FY 2022 and FY 2021 residential revenues have been reclassified to the commercial/industrial category to match FY 2023 presentation.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2023

Financial Analysis (Continued)

Total operating expenses increased \$2,010 or 4.7% in FY 2023 driven by increased costs for contracted salaries and benefits, chemicals and other plant supplies, and utilities. Contracted salaries and benefits increased by \$686 or 5.2% as a result of reduced vacancies, cost-of-living adjustments, and one-time salary adjustments related to the implementation of the Oregon Equal Pay Act. An increase of \$308 in utility expenses reflects higher electricity costs as well as higher sewer costs for contracted wastewater treatment services provided to a portion of WES’ service area. Other County services increased \$135 due to increased salary costs for embedded personnel, increased investment service fees related to WES’ higher pooled cash and investment balances throughout FY 2023, and additional contracted facilities maintenance services. Operating expenses decreased \$4,406 or 9.4% in FY 2022 from FY 2021 driven by a decrease in depreciation and amortization expense resulting from assets that were fully depreciated in FY 2021.



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

Total nonoperating revenues increased by \$3,801 driven by higher investment interest earnings as interest rates have increased. Total nonoperating expenses decreased by \$1,151 due to the application of a reduced interest rate on one of WES’ state loans, as discussed further in Note 8, as well as a lower loss on disposal of capital assets. In FY 2022, interest expense increased by \$522 due to scheduled interest payments for debt issued in February 2021, and interest income decreased by \$185.

Contributions, which include system development charges for new connections and developer donated infrastructure, decreased \$4,053 or 29.6% due to reduced residential and multi family development activity during FY 2023.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2023

Capital Assets and Debt Administration

Capital Assets

WES' investment in capital assets as of June 30, 2023 amounts to \$225,210, and was \$222,401 as of June 30, 2022 (net of accumulated depreciation and amortization). Total additions to capital assets during FY 2023, before depreciation and amortization, were approximately \$20.0 million. This total includes \$17.0 million in additions to construction work in progress, \$2.8 million in donated capital assets from developers, and the addition of approximately \$0.2 million in intangible right-to-use subscription assets.

Capital asset activity during FY 2023 also included approximately \$3.3 million of construction work in progress that was placed into service, and adjustments of approximately \$1.1 million related to capital project incentives and construction cost rebates received in FY 2023 which reduced the cost of existing assets placed into service during FY 2022.

The overall change in WES' capital assets for FY 2023 was \$2,809 or 1.3%, and included an increase of \$14,691 in land, easements, and construction in progress due to capital project spending on several multi-year construction projects; an increase of \$232 in intangible assets, net, due mainly to the recognition of right-to-use subscription assets related to the implementation of GASB Statement No. 96 Subscription-Based Information Technology Arrangements (SBITA); and a decrease of \$12,114 in plant and equipment, net, due to the continued depreciation of existing assets. From FY 2022 to FY 2021, capital assets decreased by \$6,915.

Capital asset balances by asset category for FY 2023 and the two prior fiscal years are included in the schedule below.

Capital Assets (net of depreciation and amortization)

(In Thousands of Dollars)

	2023	2022	2021
Land and easements	\$ 9,806	\$ 9,692	\$ 9,692
Construction in progress	23,053	8,476	11,138
Intangibles	30	39	57
Right-to-use subscription assets	246	-	-
Right-to-use lease equipment	-	6	-
Collection Plant	100,227	102,976	105,791
Pumping Plant	7,370	9,333	10,538
Treatment Plant	67,832	74,958	74,427
General Plant	16,646	16,921	17,673
Total	\$ 225,210	\$ 222,401	\$ 229,316

Additional information on WES' capital assets can be found in Note 6 beginning on page 27 of this report.

Debt

As of June 30, 2023, WES had total debt outstanding of \$156,071, compared to \$161,889 as of June 30, 2022 (net of unamortized premiums). Of the amount outstanding as of June 30, 2023, \$8,876 is due within one year.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2023

Capital Assets and Debt Administration (Continued)

Debt (Continued)

Long term debt decreased by \$5,818 in FY 2023 due to scheduled payments made on outstanding debt issues which were partially offset by proceeds received for two Oregon Department of Environmental Quality (DEQ) State Revolving Fund (SRF) Loans used to fund capital projects.

At June 30, 2023, WES’ outstanding debt includes: three SRF loans; a refunding issue of revenue obligations which refinanced the majority of three series of revenue obligations as well as one state revolving loan; an original issue of revenue obligations; and two right-to-use software subscription contracts.

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

Outstanding Debt			
(In Thousands of Dollars)			
	2023	2022	2021
Sewer revenue obligations	\$ 118,256	\$ 125,884	\$ 133,187
State revolving fund loans	37,678	36,000	32,649
Subscription and lease liabilities	137	5	-
Total	\$ 156,071	\$ 161,889	\$ 165,836

A portion of WES’ revenue bond debt is payable from assessments levied and collected against the benefited property owners first and, if assessment collections and interest earnings are not sufficient, from operating revenues of WES. The balance of the revenue bond and revenue obligation debt and the state revolving loans are payable through operating revenues and connection fees.

WES continues to maintain a “AAA” bond rating with S&P Global Ratings; this rating was originally obtained in May 2018 and was reaffirmed in February 2021.

Additional information on WES’ long-term debt can be found in Notes 8 through 10 beginning on page 29 of this report.

Economic Factors and Next Year’s Budget and Rates

In December 2022, FCS Group completed a population projection for the sanitary sewer portion of WES’ service area. Growth within this portion for the next five years is projected to be approximately 1.0% on average annually. The 1.0% annual growth rate is being used in WES’ budgeting and financial planning.

WES received System Development Charge (SDC) revenue for new connections to the system of approximately \$6.9 million in FY 2023, a decrease of \$4.5 million from FY 2022’s total of \$11.4 million. 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 2023 was 1.0% with approximately 794 new connections.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2023

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

WES' rate base allows for sufficient revenues to provide for operating expenses and to continue to provide the funding necessary to finance future capital construction.

The most recent budget adopted for FY 2023-24 established a retail monthly wastewater treatment and collection rate of \$52.85 per equivalent dwelling unit (EDU). The monthly rate for customers in the city of Happy Valley is \$55.49, which includes the city's Right-of-Way (ROW) fee. The net increase for these customers was approximately 1.9%, after increases in the treatment and collection rate and decreases in the collection for outstanding debt payments. The budget also established a wholesale monthly wastewater treatment rate of \$27.90, a 5.1% increase, for the cities of Johnson City, Milwaukie, and West Linn. A rate of \$29.30 per EDU was established for the city of Gladstone and a rate of \$29.65 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 the cities of Gladstone and Oregon City their ROW fees. Each of the cities WES serves add a charge to WES' base wastewater treatment service rate to provide for the costs associated with building and maintaining the collection systems operated by each. The FY 2024 budget includes a surface water rate increase of \$0.25 from \$4.95 per equivalent service unit (ESU) to \$5.20 per ESU in Rate Zone 3 and an increase of \$0.50 from \$8.15 per ESU to \$8.65 per ESU in Rate Zone 2. Please see WES' budget for a more detailed explanation of its ratemaking approach.

WES' FY 2023-24 budget totals \$288,906, an increase of 5.8% from FY 2022-23. Revenues are projected to increase by \$4.7 million, or 8.1% as a result of growth in the service area, the rate increases outlined above, and higher investment earnings driven by increased interest rates. Materials and services are expected to increase by approximately \$1.0 million primarily due to increases in contracted labor costs, as well as increases in the costs of services provided by the County to WES, and continuing inflation in key operating inputs such as chemicals and electricity. Reductions in discretionary spending and cost savings achieved through operational efficiency initiatives and vacancy considerations enabled WES to offset a portion of these increases and adopt a budget with just a 3.3% overall increase in materials and services for FY 2023-24.

The adopted budget reflects a decrease of \$0.5 million in annual debt service, or 3.8% from the prior year. This savings is due to the application of a reduced interest rate on one of WES' SRF loans as a result of taking advantage of the DEQ's sponsorship loan program.

Capital spending to improve existing infrastructure and system capacity continues to be a significant budgetary item as WES implements its Capital Improvement Plan (CIP). The FY 2023-24 budget includes \$52.0 million in capital expenditures. Budgeted positions reflect an increase of 2 full-time equivalent positions from the FY 2022-23 budget for additional engineering staff to support project delivery and implementation of WES' CIP.

Financial Contact

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

Basic Financial Statements



WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET POSITION
June 30, 2023 and 2022

	2023	2022
ASSETS		
Current assets:		
Pooled cash and investments	\$ 91,721,563	\$ 67,903,200
Pooled cash and investments, restricted	32,902,095	44,843,722
Unbonded assessments receivable, net	73,017	83,920
Accrued interest receivable on assessments, net	840,777	828,914
Accounts receivable	7,397,780	7,119,153
Interest receivable	1,850,283	275,768
Lease receivable	90,000	90,000
Advance deposits for capital projects	9,257,002	9,257,002
Prepaid expenses	462,375	246,441
Total current assets	144,594,892	130,648,120
Noncurrent assets:		
Pooled cash and investments - restricted	60,246,329	62,656,688
Capital assets:		
Land, easements and construction in progress	32,859,284	18,168,004
Plant and equipment, net	192,074,605	204,188,472
Intangible assets, net	276,420	44,583
Connection charges receivable, noncurrent portion	188,972	207,032
Bonded assessments receivable, net	85,254	85,254
Contracts receivable	2,000,000	2,000,000
Lease receivable, noncurrent portion	98,447	169,292
Unbonded assessments receivable, noncurrent portion	1,286,939	1,502,855
Total noncurrent assets	289,116,250	289,022,180
TOTAL ASSETS	433,711,142	419,670,300
LIABILITIES		
Current liabilities:		
Accounts payable	5,284,603	2,200,010
Contract labor payable, due to Clackamas County	909,497	767,621
Other liabilities	-	266,409
Subscription and lease liabilities, current portion	48,976	4,843
Unearned income	710,431	710,431
Due to Clackamas County	1,359,519	851,132
Accrued interest, payable from restricted assets	365,203	336,948
Loan payable, current portion	1,842,323	106,208
Current portion of long term debt, payable from restricted assets	6,985,000	6,515,000
Total current liabilities	17,505,552	11,758,602

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET POSITION (Continued)
June 30, 2023 and 2022

	2023	2022
Noncurrent liabilities:		
Subscription and lease liabilities, net of current portion	\$ 88,380	\$ -
Long term debt, net of current portion, payable from restricted assets	111,271,052	119,368,961
Long term contracts, net of current portion	35,835,194	35,894,375
Total noncurrent liabilities	147,194,626	155,263,336
TOTAL LIABILITIES	164,700,178	167,021,938
Deferred inflows of resources:		
Leases	181,042	253,458
Total deferred inflows of resources	181,042	253,458
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	164,881,220	167,275,396
NET POSITION		
Net investment in capital assets	96,288,720	103,989,587
Restricted for capital projects	64,029,468	70,633,556
Restricted for debt service	6,484,120	9,871,310
Unrestricted	102,027,614	67,900,451
TOTAL NET POSITION	\$ 268,829,922	\$ 252,394,904

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Sanitary Sewer user charges	\$ 42,256,191	\$ 40,803,347
Surface Water user charges	6,033,587	5,676,998
Other operating revenues	<u>1,513,312</u>	<u>1,120,103</u>
Total operating revenues	<u>49,803,090</u>	<u>47,600,448</u>
Operating expenses:		
Contracted salaries and benefits	13,951,925	13,265,957
Professional services	2,103,735	2,119,084
Laboratory services	98,734	98,207
Other County services	2,852,981	2,717,765
Supplies	2,696,211	2,158,686
Vehicle expenses	864,843	885,459
Repairs and maintenance	1,094,346	1,019,710
Utilities	2,184,178	1,876,191
Insurance	464,209	480,045
Other expense	1,265,867	1,305,430
Depreciation and amortization	<u>16,935,862</u>	<u>16,576,384</u>
Total operating expenses	<u>44,512,891</u>	<u>42,502,918</u>
Operating income	<u>5,290,199</u>	<u>5,097,530</u>
Nonoperating revenues (expenses):		
Interest income	4,749,033	895,174
Interest expense	(3,125,646)	(3,845,895)
Federal and state grants	-	41,796
Dispatchable power	-	11,300
Loss on disposal of capital assets	<u>(133,895)</u>	<u>(564,227)</u>
Total nonoperating revenues (expenses)	<u>1,489,492</u>	<u>(3,461,852)</u>
Income before contributions	<u>6,779,691</u>	<u>1,635,678</u>
Contributions:		
Connection charges	6,894,764	11,394,422
Capital contributions	<u>2,760,563</u>	<u>2,313,103</u>
Total contributions	<u>9,655,327</u>	<u>13,707,525</u>
Change in net position	16,435,018	15,343,203
Net position - beginning of year	<u>252,394,904</u>	<u>237,051,701</u>
Net position - end of year	<u>\$ 268,829,922</u>	<u>\$ 252,394,904</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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Received from customers	\$ 48,406,066	\$ 47,455,394
Payments to suppliers for goods and services	(10,895,898)	(9,886,961)
Payments to related entities for services	(16,624,985)	(16,084,005)
Other operating revenue	1,565,335	1,126,192
Net cash from operating activities	22,450,518	22,610,620
Cash flows from noncapital financing activities:		
Federal and state grant revenue	-	914,771
Net cash from noncapital financing activities	-	914,771
Cash flows from capital and related financing activities:		
Principal paid on capital debt	(7,537,566)	(6,296,208)
Interest paid on capital debt	(4,210,300)	(4,984,577)
Proceeds from loans	2,644,727	3,457,456
Assessment and contract principal collected	226,819	336,179
Interest received on assessments and contracts	74,102	84,252
Connection charges collected	6,608,609	10,623,352
Proceeds from the sale of capital assets	50,791	40,409
Acquisition and construction of capital assets	(13,895,056)	(21,367,344)
Net cash from capital and related financing activities	(16,037,874)	(18,106,481)
Cash flows from investing activities:		
Interest received	3,053,733	601,516
Net cash from investing activities	3,053,733	601,516
Net change in cash and cash equivalents	9,466,377	6,020,426
Pooled cash and investments, beginning of year	175,403,610	169,383,184
Pooled cash and investments, end of year ⁽¹⁾	\$ 184,869,987	\$ 175,403,610

⁽¹⁾ Pooled cash and investments are reflected on the Statements of Net Position as follows:

Current assets - unrestricted	\$ 91,721,563	\$ 67,903,200
Current assets - restricted	32,902,095	44,843,722
Noncurrent assets - restricted	60,246,329	62,656,688
	\$ 184,869,987	\$ 175,403,610

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF CASH FLOWS (Continued)
for the fiscal years ended June 30, 2023 and 2022

	2023	2022
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 5,290,199	\$ 5,097,530
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	16,935,862	16,576,384
Changes in assets and liabilities:		
Decrease in user charges and other receivables	110,274	999,240
Increase in prepaid expenses	(215,934)	(74,866)
Increase (decrease) in accounts payable and Due to Clackamas County	454,650	(138,361)
Increase in Contract labor payable, due to Clackamas County	141,876	159,383
Decrease in other liabilities	(266,409)	(8,690)
Total adjustments	17,160,319	17,513,090
Net cash from operating activities	\$ 22,450,518	\$ 22,610,620
Noncash capital and related financing activities:		
Contributions of capital assets from governments, developers and customers	\$ 2,760,563	\$ 2,313,103
Right-to-use subscription and lease asset additions	188,319	17,422

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, 2023 and 2022

1. Summary of Significant Accounting Policies

Reporting Entity

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

WES was formed 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, 2023.

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

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

Basis of Accounting

WES’ basic financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred regardless of the timing of related cash flows. WES maintains seven individual funds for state legal compliance 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, liabilities, and deferred outflows/inflows of resources are included in the Statements of Net Position. The Statements of Revenues, Expenses, and Changes in Net Position 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 wastewater treatment and collection, and surface water management 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, 2023 and 2022

1. Summary of Significant Accounting Policies (Continued)

Pooled Cash and Investments

State statutes authorize WES to invest in general obligations of the U.S. Government and in its agencies, and instrumentalities, of the U.S. or enterprises sponsored by the U.S. Government and obligations whose payment is guaranteed by the U.S., agencies and instrumentalities of the U.S. or enterprises sponsored by the U.S. Government, certain bonded obligations of Oregon municipalities, certain corporate indebtedness, bank repurchase agreements, bankers' acceptances, certain commercial paper and the State of Oregon Treasurer's Local Government Investment Pool ("LGIP"), among others. As of June 30, 2023 and 2022 and for the years then ended, WES and the County were in compliance with the aforementioned State of Oregon statutes.

Pooled cash and investments represent WES' equity in pooled accounts maintained by the County Treasurer. Some financial information required by Governmental Accounting Standards Board Statements ("GASB") No. 3, No. 31, No. 40, and No. 72 regarding the accounting and financial reporting for WES' pooled cash and investments, held by the Clackamas County Treasurer, has been disclosed in the County's Annual Comprehensive Financial Reports for the fiscal years ended June 30, 2023 and 2022.

Assessments Receivable

Assessments receivable represent the uncollected amounts levied against benefited property for the cost of local improvements. The assessments are generally payable over a period of twenty years at interest rates ranging from 5.0% to 10.18%. WES has determined the collectability of a portion of assessments receivable and accrued interest thereon as doubtful and has established an allowance.

The balance of the allowance at June 30, 2023 is \$516,953 of which \$143,009 is accrued interest. The balance of the allowance at June 30, 2022 was the same. Assessments receivable arise from both bonded and unbonded sources. Bonded assessments were funded through revenue bond sales. Unbonded assessments were funded from WES' operations.

Accounts Receivable

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

Lease Receivable

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

1. Summary of Significant Accounting Policies (Continued)

Restricted Assets and Related Liabilities

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

Capital Assets

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

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

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

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

WES periodically reevaluates the estimated useful lives of these assets.

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

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows / Inflows of Resources

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

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

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 amortization, and reduced by outstanding debt (revenue bonds and other debt obligations, and subscription and lease liabilities) 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 \$64,029,468 at June 30, 2023 and \$70,633,556 at June 30, 2022, 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.

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 net position in WES' financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is WES' policy to consider restricted resources to have been depleted before using any of the components of unrestricted resources.

Use of Estimates

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

1. Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain line items in the 2022 financial statements have been reclassified to conform to the 2023 presentation. Total change in net position was not affected by these reclassifications.

Advance Deposits for Capital Projects and Prepaid Expenses

Advance deposits for capital projects, which consist of prepayments made under cooperative capital project agreements, are expensed as draws are made on the deposit. Payments to vendors for goods or services that will be received in future periods are recorded as prepaid items and expensed as consumed.

Adoption of New GASB Pronouncements

During the fiscal years ended June 30, 2023 and 2022, the following new GASB pronouncements became effective.

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

In accordance with the requirements of GASB 87, WES' Statements of Net Position include current and noncurrent lease receivables, a deferred inflow of resources, a right to use lease asset, classified as an intangible capital asset, and a lease liability. WES' Statements of Revenues, Expenses, and Changes in Net Position include interest expense and amortization related to the right to use lease asset and interest income and other operating revenues related to the lease receivable.

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.

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

GASB Statement No. 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.

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

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, 2023:

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

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

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 and amortization is accrued for GAAP purposes but is not a budgeted expense as it does not require an expenditure of funds.

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

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

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 FY 2022-23, the Board approved a supplemental budget which increased the appropriation for capital outlay in the Surface Water Construction Fund by \$380,000 via reductions in contingency and an increase in the transfer from the Surface Water Operating Fund. The increase in capital outlay was needed to accommodate increased spending on projects. 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.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

3. Pooled Cash and Investments

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

	2023	2022
Petty cash	\$ 1,200	\$ 1,200
Pooled cash and investments	184,868,787	175,402,410
	\$ 184,869,987	\$ 175,403,610

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

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

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

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

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

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

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

Reference may be made to the June 30, 2023 and June 30, 2022 Annual Comprehensive Financial Reports of Clackamas County for the classifications of WES' pooled accounts maintained by the County Treasurer.

Oregon Revised Statutes (ORS) require the public funds depository institution to be a participant in a multiple financial institution collateral pool administered by the Oregon State Treasurer or otherwise adequately collateralized as outlined in ORS 295. Reference should be made to the June 30, 2023 and June 30, 2022 Clackamas County Annual Comprehensive Financial Reports for compliance with these statutes.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

3. Pooled Cash and Investments (Continued)

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, but are not limited to, any municipality, political subdivision or public corporation of Oregon who by law is made the custodian of, or has control of, any public funds. The LGIP is commingled with state funds in the Oregon Short Term Fund (OSTF). In seeking to best serve participants, the Oregon Legislature established the OSTF Board. The OSTF Board advises the Oregon Investment Council and State Treasury in the management and investments of the OSTF. The OSTF is an external investment pool. The OSTF is not registered with the U.S. Securities and Exchange Commission as an investment company. Separate financial statements for the 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 June 30, 2023 and June 30, 2022 Clackamas County Annual Comprehensive Financial Reports for disclosures of the risk inherent in the County's portfolio.

Custodial Credit Risk

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

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

Credit Risk

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

4. Accounts Receivable

At June 30, amounts are comprised of the following:

	2023	2022
User charges	\$ 5,289,578	\$ 5,405,867
Connection charges from cities	1,675,630	1,387,408
Current connection charges receivable, including interest of \$38,108 at June 30, 2023 and \$24,441 at June 30, 2022	116,529	86,870
Interest receivable on contracts	55,616	35,616
Intergovernmental agreement and miscellaneous receivables	260,427	203,392
	\$ 7,397,780	\$ 7,119,153

5. Lease Receivable

On June 2, 2022, WES entered into a 43 month lease as Lessor for the use of 3 Acres at the Tri-City Water Resource Recovery Facility. An initial lease receivable was recorded in the amount of \$259,292. The lease receivable is measured at the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 0.527%. As of June 30, 2023 and 2022, the lease receivable is \$188,447 and \$259,292, respectively. Under the lease agreement, the lessee is required to make quarterly fixed payments of \$18,000. A deferred inflow is recorded for the lease in an amount equal to the initial recording of the lease receivable and amortized on a straight-line basis over the term of the lease. The value of the deferred inflow of resources as of June 30, 2023 and 2022, was \$181,042 and \$253,458, respectively. The lessee has 2 extension options, each for 6 months.

In FY 2022-23, WES recognized \$72,417 of lease revenue and \$1,236 of interest revenue under the lease. In FY 2021-22, WES recognized \$5,834 of lease revenue and \$101 of interest revenue under the lease.

Future receipts related to the lease receivable are as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 89,216	\$ 784	\$ 90,000
2025	71,618	382	72,000
2026	27,613	49	27,662
	\$ 188,447	\$ 1,215	\$ 189,662

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

6. Capital Assets

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

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

6. Capital Assets (Continued)

Changes in capital assets for the year ended June 30, 2022 were as follows ⁽¹⁾:

	Balance June 30, 2021	Reclassification	Balance June 30, 2021	Additions	Transfers	Deletions	Balance June 30, 2022
Capital assets not being depreciated:							
Land and easements	\$ 9,696,872	\$ (4,564)	\$ 9,692,308	\$ -	\$ -	\$ -	\$ 9,692,308
Construction in progress	11,137,393	-	11,137,393	7,963,729	(10,020,791)	(604,636)	8,475,695
Total capital assets, not being depreciated	20,834,265	(4,564)	20,829,701	7,963,729	(10,020,791)	(604,636)	18,168,003
Capital assets being depreciated and amortized:							
Intangibles	3,748,666	-	3,748,666	-	-	-	3,748,666
Right-to-use - Lease Equipment	-	-	-	17,422	-	-	17,422
Collection plant	204,722,935	1,646,512	206,369,447	2,313,103	1,226,695	(8,017)	209,901,228
Pumping plant	32,949,388	(653,935)	32,295,453	-	639,832	(70,958)	32,864,327
Treatment plant	246,040,664	(600,561)	245,440,103	-	6,791,729	(363,911)	251,867,921
General plant	33,469,838	(387,452)	33,082,386	-	1,362,535	(340,509)	34,104,412
Total capital assets being depreciated and amortized	520,931,491	4,564	520,936,055	2,330,525	10,020,791	(783,395)	532,503,976
Less accumulated depreciation and amortization for:							
Intangibles	(3,691,700)	-	(3,691,700)	(17,971)	-	-	(3,709,671)
Right-to-use - Lease Equipment	-	-	-	(11,834)	-	-	(11,834)
Collection plant	(100,578,211)	-	(100,578,211)	(6,355,140)	-	8,017	(106,925,334)
Pumping plant	(21,757,539)	-	(21,757,539)	(1,844,743)	-	70,958	(23,531,324)
Treatment plant	(171,013,494)	-	(171,013,494)	(6,233,682)	-	337,996	(176,909,180)
General plant	(15,409,055)	-	(15,409,055)	(2,113,014)	-	338,492	(17,183,577)
Total accumulated depreciation and amortization	(312,449,999)	-	(312,449,999)	(16,576,384)	-	755,463	(328,270,920)
Total capital assets being depreciated and amortized, net	208,481,492	4,564	208,486,056	(14,245,859)	10,020,791	(27,932)	204,233,056
Total capital assets, net	\$ 229,315,757	\$ -	\$ 229,315,757	\$ (6,282,130)	\$ -	\$ (632,568)	\$ 222,401,059

Depreciation and amortization expense for the year ended June 30, 2022 totaled \$16,576,384.

⁽¹⁾ June 30, 2022 Capital Assets schedule and figures updated to include Right-to-use Lease Equipment capital asset category.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

7. Contracts Receivable

On September 18, 2020, WES entered into a purchase and sale agreement with a private developer which provided for the sale of the majority of the former Blue Heron property with WES retaining a 2.2 acre parcel of the property for future use. In consideration for the 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, 2023 and 2022, none of the conditions required for the principal to adjust have occurred and the note has been recorded at the base purchase price of \$2,000,000. The note had accrued interest of \$55,616 at June 30, 2023, and \$35,616 at June 30, 2022; this interest is included in the accounts receivable balance in the Statements of Net Position.

8. Loans Payable

Amounts represent obligations for state revolving fund 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 FY 2013-14.

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

In September 2020, WES entered into a loan agreement with the State of Oregon via DEQ for Sponsorship Option Loan R95031 to finance the Three Creeks Floodplain Enhancement project. The total amount of the loan is \$1,450,000 at 1.38% interest, with a promotional interest rate to be calculated upon completion of the project. As of June 30, 2023, loan disbursements of \$530,111 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.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

8. Loans Payable (Continued)

Similar to its' bond covenants for outstanding revenue obligations (see below), WES has irrevocably pledged its net operating revenues towards payment of loans R06224, R95030, and R95031. If the loans are defaulted, by failure to make required principal or interest payments, or failing to conform to any covenants or conditions of this agreement, the State could declare all principal and interest and all other amounts due immediately. It could also set and collect utility rates and charges or direct the State Treasurer to withhold any amounts otherwise due to the borrower from the State of Oregon.

These loans are collateralized by future user charge revenues and contain certain financial covenants. As of June 30, 2023 and June 30, 2022, management believes WES was in compliance with these covenants.

Changes in loans payable for the year ended June 30, 2023 are as follows ⁽¹⁾:

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

Changes in loans payable for the year ended June 30, 2022 are as follows:

	Interest Rates	Outstanding July 1, 2021	Increases	Decreases	Outstanding June 30, 2022	Current Portion
Revolving Loan R06224	0.00%	\$ 1,221,407	\$ -	\$ (106,208)	\$ 1,115,199	\$ 106,208
Revolving Loan R95030	2.14%	31,427,928	3,457,456	-	34,885,384	-
Revolving Loan R95031	1.38%	-	-	-	-	-
		<u>\$ 32,649,335</u>	<u>\$ 3,457,456</u>	<u>\$ (106,208)</u>	<u>\$ 36,000,583</u>	<u>\$ 106,208</u>

Future maturities of revolving loans are as follows:

Fiscal Year	Principal	Interest/Admin. Fees	Total
2024	\$ 1,842,323	\$ 343,657	\$ 2,185,980
2025	1,859,727	511,538	2,371,265
2026	1,877,307	484,615	2,361,922
2027	1,895,063	457,428	2,352,491
2028	1,912,996	429,975	2,342,971
2029-2033	9,787,243	1,731,194	11,518,437
2034-2038	9,785,371	1,008,517	10,793,888
2039-2042	8,187,376	267,725	8,455,101
	<u>\$ 37,147,406</u>	<u>\$ 5,234,649</u>	<u>\$ 42,382,055</u>

⁽¹⁾ The interest rate for Revolving Loan R95030 in the loan activity schedules above reflects an adjustment from 2.14% in FY 2021-22 to 1.00% in FY 2022-23 resulting from an October 2022 amendment to the loan agreement.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

9. Long Term Debt

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

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

Changes in long term debt for the year ended June 30, 2022, are as follows:

	Interest Rates	Outstanding June 30, 2021	Increases	Decreases	Outstanding June 30, 2022	Current Portion
Revenue Obligations - 2016	2.000% - 5.000%	\$ 77,080,000	\$ -	\$ (4,125,000)	\$ 72,955,000	\$ 4,345,000
Revenue Obligations - 2021	2.000% - 5.000%	40,000,000	-	(2,065,000)	37,935,000	2,170,000
		<u>\$ 117,080,000</u>	<u>\$ -</u>	<u>\$ (6,190,000)</u>	<u>\$ 110,890,000</u>	<u>\$ 6,515,000</u>

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

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

Changes in premiums for the year ended June 30, 2022, are as follows:

	Balance June 30, 2021	Increases	Decreases	Balance June 30, 2022
Revenue Obligations - 2016 Premium	\$ 7,892,335	\$ -	\$ (526,156)	\$ 7,366,179
Revenue Obligations - 2021 Premium	8,214,534	-	(586,752)	7,627,782
	<u>\$ 16,106,869</u>	<u>\$ -</u>	<u>\$ (1,112,908)</u>	<u>\$ 14,993,961</u>

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

9. Long Term Debt (Continued)

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

	2023	2022
Current maturities - face value	\$ 6,985,000	\$ 6,515,000
	\$ 6,985,000	\$ 6,515,000
Future maturities - face value	\$ 97,390,000	\$ 104,375,000
Premium	13,881,052	14,993,961
	\$ 111,271,052	\$ 119,368,961

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.

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%.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

9. Long Term Debt (Continued)

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

Maturities of 2016 bond principal at June 30, 2023 are as follows:

Fiscal Year	Principal	Interest
2024	\$ 4,705,000	\$ 2,197,757
2025	4,945,000	1,956,506
2026	5,200,000	1,702,881
2027	5,470,000	1,436,132
2028	5,720,000	1,184,981
2029-2033	30,805,000	3,478,672
2034-2036	11,765,000	333,213
	<u>\$ 68,610,000</u>	<u>\$ 12,290,142</u>

Maturities of 2021 bond principal at June 30, 2023 are as follows:

Fiscal Year	Principal	Interest
2024	\$ 2,280,000	\$ 1,402,250
2025	2,395,000	1,288,250
2026	2,515,000	1,168,500
2027	2,640,000	1,042,750
2028	2,770,000	910,750
2029-2033	16,015,000	2,398,900
2034-2036	7,150,000	215,200
	<u>\$ 35,765,000</u>	<u>\$ 8,426,600</u>

Under the revenue obligation agreements, WES has agreed to covenants that it will charge user rates and fees in connection with the operation of the sewer system, which are adequate to cover annual debt service as required by the bond agreements and a minimum of an additional twenty percent (20.0%) collected. WES has also agreed to maintain restricted reserve accounts to provide for the payment of debt service in the event that pledged revenues are not sufficient to pay debt service when due. Management believes WES was in compliance with these covenants during the years ended June 30, 2023 and June 30, 2022.

At June 30, 2023, 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, 2023 Revenue ⁽¹⁾	For the Year Ended June 30, 2023 Debt (P&I) Payments
State Loan R06224	Sewer Assessments	2033	\$ 1,008,991	\$ 33,869,858	\$ 111,518
State Loan R95030	Sewer Fees	2042	36,138,415	-	1,131,585
State Loan R95031 ⁽²⁾	Surface Water Fees	-	-	-	-
Revenue Obligations 2016	Sewer Fees	2036	68,610,000	-	6,769,006
Revenue Obligations 2021	Sewer Fees	2035	35,765,000	-	3,680,750
Total			<u>\$ 141,522,406</u>	<u>\$ 33,869,858</u>	<u>\$ 11,692,859</u>

(1) Same net revenue source pledged for multiple purposes. Total Gross Revenues of \$61,446,887 less Total Operating Expenses of \$27,577,029.

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

10. Subscription and Lease Liabilities

WES has commitments to various subscription-based IT arrangements (SBITAs). At June 30, 2023, WES has two qualifying SBITAs under GASB 96 in which it is acting as subscriber.

On July 1, 2022, WES entered into a 120 month subscription for the use of data management software. An initial subscription liability was recorded in the amount of \$51,636. As of June 30, 2023, the value of the subscription liability is \$46,049. WES is required to make annual fixed payments of \$5,820. The subscription has an interest rate of 2.6570%. An initial subscription asset was recorded in the amount of \$134,130, and included capitalizable implementation costs of \$82,494. The value of the subscription asset as of June 30, 2023 of \$134,130 with accumulated amortization of \$13,413 is included with other intangible capital assets on the Statements of Net Position.

On April 1, 2023, WES entered into a 36 month subscription for the use of Wonderware software. An initial subscription liability was recorded in the amount of \$136,683. As of June 30, 2023, the value of the subscription liability is \$91,307. WES is required to make annual payments starting at \$45,376; the payment amount will increase 3% each subsequent year of the remaining 2 year subscription term. The subscription has an interest rate of 2.5820%. The value of subscription asset as of June 30, 2023 of \$136,683 with accumulated amortization of \$11,390 is included with other intangible capital assets on the Statements of Net Position.

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

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

Future minimum payments for subscription liabilities as of June 30, 2023 are as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 48,976	\$ 3,581	\$ 52,557
2025	51,646	2,313	53,959
2026	4,844	976	5,820
2027	4,973	847	5,820
2028	5,105	715	5,820
2029-2032	21,812	1,468	23,280
	<u>\$ 137,356</u>	<u>\$ 9,900</u>	<u>\$ 147,256</u>

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

10. Subscription and Lease Liabilities (Continued)

On July 1, 2021, WES entered into a 17 month lease as Lessee for the use of a mobile office trailer at the Tri-City Water Resource Recovery Facility. An initial lease liability was recorded in the amount of \$16,453 using an interest rate of 0.1650%. The lease was terminated in November 2022 and as of June 30, 2023, the value of the lease liability is \$0.

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

	Interest Rate	Outstanding June 30, 2022	Remeasurement	Increases	Decreases	Outstanding June 30, 2023	Current Portion
Mobile office trailer	0.1650%	\$ 4,843	\$ (1,033)	\$ -	\$ (3,810)	\$ -	\$ -
		<u>\$ 4,843</u>	<u>\$ (1,033)</u>	<u>\$ -</u>	<u>\$ (3,810)</u>	<u>\$ -</u>	<u>\$ -</u>

Changes in lease liabilities for the year ended June 30, 2022, are as follows:

	Interest Rates	Outstanding June 30, 2021	Increases	Decreases	Outstanding June 30, 2022	Current Portion
Mobile office trailer	0.1650%	\$ -	\$ 16,453	\$ (11,610)	\$ 4,843	\$ 4,843
		<u>\$ -</u>	<u>\$ 16,453</u>	<u>\$ (11,610)</u>	<u>\$ 4,843</u>	<u>\$ 4,843</u>

WES has no lease obligations as of June 30, 2023.

11. Commitments

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

11. Commitments (Continued)

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

	2023	2022
Sanitary Sewer user charges ⁽¹⁾	\$ 15,274,838	\$ 14,999,551
Connection charges	4,313,332	3,337,344
Pump station maintenance charges	12,089	4,243
	\$ 19,600,259	\$ 18,341,138

⁽¹⁾ Sanitary Sewer user charges in the schedule above include applicable city right-of-way fees.

During FY 2019-20, WES entered into a “Good Neighbor” agreement with the cities of Gladstone and Oregon City to fund neighborhood enhancement projects relating to the hosting of the Tri-City Water Resource Recovery Facility (WRRF) in their communities. Total costs related to this agreement for FY 2022-23 were \$250,000. Total costs for FY 2021-22 were the same.

In January 2023, WES entered into a Good Neighbor agreement with the city of Milwaukie to fund neighborhood enhancement projects relating to the hosting of the Kellogg Creek Water Resource Recovery Facility in the city. Total payments related to this agreement for FY 2022-23 were \$404,647, and included \$138,238 related to FY 2022-23 costs under the new agreement as well as payment of an existing liability of \$266,409 related to prior year funds under a previous Good Neighbor agreement.

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

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

In January 2022, WES entered into a “Regional Inflow and Infiltration Reduction” agreement with the city of Johnson City. The cities of Gladstone, Happy Valley, Milwaukie, and Oregon City joined the agreement in March, 2022. Under the terms of the agreement, WES will reimburse the cities thirty-three percent of approved joint project costs for Inflow and Infiltration (I&I) reduction projects in the collection systems owned and maintained by WES’ partner cities. I&I reduction in the cities’ collection systems will allow WES to build less wet-weather treatment capacity at the plants and thereby realize substantial future cost savings. The costs related to this agreement in FY 2022-23 were \$1,439,871. Total costs in FY 2021-22 were \$0.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

11. Commitments (Continued)

In November 2021, WES entered a Cooperative Improvement (Utility) Agreement with Oregon Department of Transportation (ODOT) for construction of a new sewer force main in conjunction with ODOT’s expansion of the Abernathy bridge in Oregon City. Per the terms of the agreement, during FY 2021-22, WES made an advance deposit of the estimated project costs of \$9.26 million for ODOT to draw against as construction progresses over the project timeline. ODOT will construct the new sewer force main at the appropriate time in sequence with other bridge improvements. For the years ended June 30, 2023 and June 30, 2022, no draws were made against the deposit.

WES is committed under contractual agreements for various multi-year contracts related to capital acquisition and service agreements. The total contract costs are approximately \$65.0 million. As of June 30, 2023, approximately \$33.5 million of these contracts remain outstanding.

12. Related Party Transactions

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

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

During FYs 2022-23 and 2021-22, 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 2023 and 2022, charged by the above departments, totaled approximately \$16,804,906 and \$15,983,723 respectively.

At June 30, related party balances consist of:

	Receivable		Payable	
	2023	2022	2023	2022
Clackamas County *	\$ 121,493	\$ 63,456	\$ 1,359,519	\$ 851,132
Clackamas County - Contract labor payable	-	-	909,497	767,621
	<u>\$ 121,493</u>	<u>\$ 63,456</u>	<u>\$ 2,269,016</u>	<u>\$ 1,618,753</u>

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2023 and 2022

13. 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.

14. Risk Management

WES is exposed to various risks of loss related to errors and omissions; automobile; damage to and destruction of assets; and bodily injury for which WES carries commercial insurance. An IGA between WES and Clackamas County clarifies that for workers' compensation and employment practice liability issues, WES participates in the County's self-insurance program where not commercially insured. All employees of WES are contracted from the County. WES makes payments where applicable to the County's self-insurance internal service funds based on historical cost information, estimates of the amounts needed to pay prior year and current year claims, claim reserves, premiums and administrative costs of the program. During the past three fiscal years, no settled claims, from the County's self-insurance program have exceeded insurance coverage levels, and there has been no significant reduction in coverage.

15. Pollution Remediation

An agreement with the DEQ entered into on June 2, 2000 requires WES to perform certain, specific pollution remediation measures on property owned by WES adjacent to the Tri-City Water Resource Recovery Facility (TCWRRF) 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.

16. Subsequent Events

On October 12, 2023, WES entered into a subordination agreement related to a \$2.0 million contract receivable, which originated from the sale of the former Blue Heron property in September 2020. Under the terms of the agreement, WES has agreed to subordinate its lien on the property in favor of a new \$2.0 million loan provided to a private developer. This arrangement was made to support the ongoing development of the property, and aligns with the original promissory note's terms, whereby WES agreed to subordinate its lien to subsequent loans. These subsequent loans are capped at an amount not to exceed the greater of \$10.0 million or 85% of the property's completed appraised value.

On October 26, 2023, WES amended a contract for the Tri-City Water Resource Recovery Facility Outfall project to add approximately \$58.4 million in funds, bringing the total contract value to approximately \$60.6 million. The additional contract funds cover final design services, and construction, which is expected to be completed in FY 2025-26. This commitment was anticipated in WES' capital improvement plan and will be financed with existing construction reserves.

Supplementary Information



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

Basis of Accounting

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

Fund Descriptions

Sanitary Sewer Operating Fund

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

Sanitary Sewer System Development Charge Fund

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

Debt Service Fund

The Debt Service Fund accounts for redemption of revenue bonds and interest thereon as well as payment of the Department of Environmental Quality loans. The primary resources are transfers of user charges and system development charges from other funds.

Sanitary Sewer Construction Fund

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

Surface Water Operating Fund

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

Surface Water System Development Charge Fund

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

Surface Water Construction Fund

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
SANITARY SEWER OPERATING FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2023
(with comparative totals for the year ended June 30, 2022)

	2023			
	Original And Final Budget	Actual	Variance with Final Budget	2022 Actual
REVENUES:				
Sanitary Sewer user charges	\$ 42,284,700	\$ 43,017,787	\$ 733,087	\$ 41,139,216
Interest on investments	82,500	332,905	250,405	63,297
System development charges	200,000	25,050	(174,950)	18,403
Special connection charges	-	-	-	120,234
Special assessment collections	5,000	9,452	4,452	18,022
Operating grants	-	-	-	752,227
Miscellaneous	420,720	577,375	156,655	551,770
Total revenues	42,992,920	43,962,569	969,649	42,663,169
EXPENDITURES:				
Materials and services	24,298,510	22,564,628	1,733,882	20,127,160
Special payments	1,215,100	1,149,866	65,234	1,112,774
Contingency	4,050,000	-	4,050,000	-
Total expenditures	29,563,610	23,714,494	5,849,116	21,239,934
Revenues over (under) expenditures	13,429,310	20,248,075	6,818,765	21,423,235
OTHER FINANCING USES:				
Transfers to other funds	(23,500,000)	(23,500,000)	-	(19,512,971)
Net change in fund balance	(10,070,690)	(3,251,925)	6,818,765	1,910,264
Fund balance - beginning	11,791,888	13,357,957	1,566,069	11,447,693
Fund balance - ending	\$ 1,721,198	10,106,032	\$ 8,384,834	\$ 13,357,957
Adjustment to GAAP basis:				
Connection charges receivable		361,116		
Capital assets (net of acc. depreciation and amortization)		199,488,931		
Lease receivable		188,447		
Interest receivable		79,070		
Assessments receivable		390,821		
Contracts receivable		2,000,000		
Unearned income		(710,431)		
Subscription and lease liabilities		(137,355)		
Interest payable		(1,606)		
Deferred inflows		(181,042)		
Net position - GAAP basis		\$ 211,583,983		

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, 2023
(with comparative totals for the year ended June 30, 2022)

	2023			2022 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Connection charges	\$ 6,149,000	\$ 6,797,056	\$ 648,056	\$ 11,135,878
Interest on investments	332,300	760,688	428,388	153,138
Total revenues	<u>6,481,300</u>	<u>7,557,744</u>	<u>1,076,444</u>	<u>11,289,016</u>
EXPENDITURES:				
Capital outlay	206,000	170,367	35,633	413,790
Contingency	103,000	-	103,000	-
Total expenditures	<u>309,000</u>	<u>170,367</u>	<u>138,633</u>	<u>413,790</u>
Revenues over (under) expenditures	<u>6,172,300</u>	<u>7,387,377</u>	<u>1,215,077</u>	<u>10,875,226</u>
OTHER FINANCING USES:				
Transfers to other funds	<u>(8,777,111)</u>	<u>(6,263,894)</u>	<u>2,513,217</u>	<u>(7,279,779)</u>
Net change in fund balance	<u>(2,604,811)</u>	<u>1,123,483</u>	<u>3,728,294</u>	<u>3,595,447</u>
Fund balance - beginning	<u>47,473,691</u>	<u>51,215,688</u>	<u>3,741,997</u>	<u>47,620,241</u>
Fund balance - ending	<u>\$ 44,868,880</u>	<u>52,339,171</u>	<u>\$ 7,470,291</u>	<u>\$ 51,215,688</u>
Adjustment to GAAP basis:				
Interest receivable		<u>120,630</u>		
Net position - GAAP basis		<u>\$ 52,459,801</u>		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2023
(with comparative totals for the year ended June 30, 2022)

	2023			2022 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Assessments collected	\$ 100,000	\$ 218,077	\$ 118,077	\$ 290,005
Interest on assessments	95,000	77,455	(17,545)	97,119
Interest on investments	72,700	142,435	69,735	31,336
Total revenues	267,700	437,967	170,267	418,460
EXPENDITURES:				
Principal	8,168,422	7,482,793	685,629	6,296,208
Interest	5,108,633	4,210,066	898,567	4,984,577
Total expenditures	13,277,055	11,692,859	1,584,196	11,280,785
Revenues over (under) expenditures	(13,009,355)	(11,254,892)	1,754,463	(10,862,325)
OTHER FINANCING SOURCES:				
Transfers from other funds	8,777,111	7,900,591	(876,520)	11,168,735
Net change in fund balance	(4,232,244)	(3,354,301)	877,943	306,410
Fund balance - beginning	10,385,357	10,296,117	(89,240)	9,989,707
Fund balance - ending	\$ 6,153,113	6,941,816	\$ 788,703	\$ 10,296,117
Adjustment to GAAP basis:				
Long term contracts payable		(37,677,517)		
Long term debt payable		(104,375,000)		
Capitalized bond premium		(13,881,052)		
Assessments receivable		1,802,674		
Interest receivable		16,307		
Interest payable		(363,597)		
Net position - GAAP basis		\$ (147,536,369)		

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, 2023
(with comparative totals for the year ended June 30, 2022)

	2023			
	Original And Final Budget	Actual	Variance with Final Budget	2022 Actual
REVENUES:				
Interest on investments	\$ 661,500	\$ 1,562,074	\$ 900,574	\$ 285,563
Capital contributions	800,000	1,046,111	246,111	-
Total revenues	1,461,500	2,608,185	1,146,685	285,563
EXPENDITURES:				
Capital outlay	29,073,772	16,265,138	12,808,634	6,794,004
Contingency	14,536,886	-	14,536,886	-
Total expenditures	43,610,658	16,265,138	27,345,520	6,794,004
Revenues over (under) expenditures	(42,149,158)	(13,656,953)	28,492,205	(6,508,441)
OTHER FINANCING SOURCES:				
Revenue from bonds and other debts	-	2,114,616	2,114,616	3,457,456
Transfers from other funds	23,500,000	21,863,302	(1,636,698)	15,500,000
Total other financing sources	23,500,000	23,977,918	477,918	18,957,456
Net change in fund balance	(18,649,158)	10,320,965	28,970,123	12,449,015
Fund balance - beginning	94,498,723	97,396,842	2,898,119	84,947,827
Fund balance - ending	\$ 75,849,565	107,717,807	\$ 31,868,242	\$ 97,396,842
Adjustment to GAAP basis:				
Interest receivable		1,593,707		
Net position - GAAP basis		\$ 109,311,514		

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, 2023
(with comparative totals for the year ended June 30, 2022)

	2023				
	Original Budget	Final Budget	Actual	Variance with Final Budget	2022 Actual
REVENUES:					
Surface water user charges	\$ 6,044,700	\$ 6,044,700	\$ 6,033,587	\$ (11,113)	\$ 5,676,998
Interest on investments	34,400	34,400	95,231	60,831	23,342
Miscellaneous income	133,000	133,000	268,359	135,359	278,658
Total revenues	6,212,100	6,212,100	6,397,177	185,077	5,978,998
EXPENDITURES:					
Materials and services	5,794,380	5,794,380	4,508,085	1,286,295	4,694,975
Contingency	966,000	833,500	-	833,500	-
Total expenditures	6,760,380	6,627,880	4,508,085	2,119,795	4,694,975
Revenues over (under) expenditures	(548,280)	(415,780)	1,889,092	2,304,872	1,284,023
OTHER FINANCING SOURCES:					
Transfers from other funds	-	-	-	-	124,015
OTHER FINANCING USES:					
Transfers to other funds	(2,000,000)	(2,132,500)	(2,132,500)	-	(3,000,000)
Net change in fund balance	(2,548,280)	(2,548,280)	(243,408)	2,304,872	(1,591,962)
Fund balance - beginning	4,920,166	4,920,166	5,276,402	356,236	6,868,364
Fund balance - ending	<u>\$ 2,371,886</u>	<u>\$ 2,371,886</u>	5,032,994	<u>\$ 2,661,108</u>	<u>\$ 5,276,402</u>
Adjustment to GAAP basis:					
Capital assets (net of acc. depreciation and amortization)			25,721,378		
Interest receivable			10,994		
Net position - GAAP basis			<u>\$ 30,765,366</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, 2023
(with comparative totals for the year ended June 30, 2022)

	2023			
	Original And Final Budget	Actual	Variance with Final Budget	2022 Actual
REVENUES:				
System development charges	\$ 135,100	\$ 72,658	\$ (62,442)	\$ 138,311
Interest on investments	18,400	40,656	22,256	7,867
Total revenues	153,500	113,314	(40,186)	146,178
EXPENDITURES:				
Total expenditures	-	-	-	-
Revenues over (under) expenditures	153,500	113,314	(40,186)	146,178
Net change in fund balance	153,500	113,314	(40,186)	146,178
Fund balance - beginning	2,631,273	2,620,151	(11,122)	2,473,973
Fund balance - ending	\$ 2,784,773	2,733,465	\$ (51,308)	\$ 2,620,151
Adjustment to GAAP basis:				
Interest receivable		6,508		
Net position - GAAP basis		\$ 2,739,973		

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, 2023
(with comparative totals for the year ended June 30, 2022)

	2023				
	Original Budget	Final Budget	Actual	Variance with Final Budget	2022 Actual
REVENUES:					
Interest on investments	\$ 57,600	\$ 57,600	\$ 119,745	\$ 62,145	\$ 16,973
Total revenues	<u>57,600</u>	<u>57,600</u>	<u>119,745</u>	<u>62,145</u>	<u>16,973</u>
EXPENDITURES:					
Capital outlay	990,000	1,370,000	1,264,390	105,610	755,936
Contingency	<u>247,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,237,500</u>	<u>1,370,000</u>	<u>1,264,390</u>	<u>105,610</u>	<u>755,936</u>
Revenues over (under) expenditures	<u>(1,179,900)</u>	<u>(1,312,400)</u>	<u>(1,144,645)</u>	<u>167,755</u>	<u>(738,963)</u>
OTHER FINANCING SOURCES:					
Revenue from bonds and other debts	1,000,000	1,000,000	530,111	(469,889)	-
Transfer from other funds	<u>2,000,000</u>	<u>2,132,500</u>	<u>2,132,500</u>	<u>-</u>	<u>3,000,000</u>
Total other financing sources	3,000,000	3,132,500	2,662,611	(469,889)	3,000,000
Net change in fund balance	<u>1,820,100</u>	<u>1,820,100</u>	<u>1,517,966</u>	<u>(302,134)</u>	<u>2,261,037</u>
Fund balance - beginning	<u>8,226,685</u>	<u>8,226,685</u>	<u>7,964,622</u>	<u>(262,063)</u>	<u>5,703,585</u>
Fund balance - ending	<u>\$ 10,046,785</u>	<u>\$ 10,046,785</u>	9,482,588	<u>\$ (564,197)</u>	<u>\$ 7,964,622</u>
Adjustment to GAAP basis:					
Interest receivable			<u>23,066</u>		
Net position - GAAP basis			<u>\$ 9,505,654</u>		

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
 SUMMARY OF NET POSITION
 BY FUND
 for the year ended June 30, 2023

Fund	Description	Net Position GAAP Basis
631	Sanitary Sewer Operating Fund	\$ 211,583,983
632	Sanitary Sewer System Development Charge Fund	52,459,801
635	Debt Service Fund	(147,536,369)
639	Sanitary Sewer Construction Fund	109,311,514
641	Surface Water Operating Fund	30,765,366
642	Surface Water System Development Charge Fund	2,739,973
649	Surface Water Construction Fund	9,505,654
	Total Net Position	\$ 268,829,922

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Statistical Section



STATISTICAL SECTION

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

WES was formed on November 16, 2016 with no activity prior to July 1, 2017. As such, data for years prior to 2018 is not available for WES. Reference may be made to the prior fiscal year financial reports for WES' member districts, the Tri-City Service District and Clackamas County Service District No. 1, for comparison with FY's 2023 through FY 2018 statistics.

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

These schedules present information to help the reader assess the affordability of WES' current levels of outstanding debt and WES' ability to issue additional debt in the future. WES does not have any indebtedness subject to the legal debt limitation in accordance with Oregon Revised Statutes 451.545; consequently, the schedule of the computation of legal debt margin is not included in the statistical section.

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Full-Time Equivalent Employees by Function
Operating and Capital Indicators

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

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

NET POSITION BY COMPONENT
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2023	\$ 96,288,720	\$ 70,513,588	\$ 102,027,614	\$ 268,829,922
2022	103,989,587	80,504,866	67,900,451	252,394,904
2021	112,167,501	59,023,367	65,860,833	237,051,701
2020	122,723,333	42,554,081	63,647,718	228,925,132
2019	109,060,156	34,282,157	70,503,282	213,845,595
2018	35,210,690	2,971,058	14,308,920	52,490,668

Source: WES' Annual Comprehensive Financial Report

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

CHANGES IN NET POSITION
Last Ten Fiscal Years

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

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

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>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Sanitary Sewer user charges						
Cities	\$ 15,274,838	\$ 14,999,551	\$ 14,784,587	\$ 14,346,181	\$ 13,801,878	\$ 8,308,939
Residential	13,513,091	12,987,330	12,771,561	12,194,781	11,400,628	196,864
Commercial	3,322,921	3,071,685	3,472,927	3,427,806	3,312,205	28,522
Industrial	1,438,035	1,475,608	1,389,421	1,134,271	884,807	-
Other	8,707,306	8,269,173	7,960,922	7,766,199	7,390,962	8,064
Total Sanitary Sewer user charges	<u>\$ 42,256,191</u>	<u>\$ 40,803,347</u>	<u>\$ 40,379,418</u>	<u>\$ 38,869,238</u>	<u>\$ 36,790,480</u>	<u>\$ 8,542,389</u>
Surface Water user charges						
Residential	\$ 2,224,181	\$ 2,064,970	\$ 2,007,986	\$ 1,826,448	\$ 1,713,821	\$ 148,106
Commercial	3,419,295	3,232,796	3,131,932	2,987,651	2,854,696	-
Other	390,111	379,232	363,064	349,472	341,804	37,540
Total Surface Water user charges	<u>\$ 6,033,587</u>	<u>\$ 5,676,998</u>	<u>\$ 5,502,982</u>	<u>\$ 5,163,571</u>	<u>\$ 4,910,321</u>	<u>\$ 185,646</u>

Source: WES' Records

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

MONTHLY SEWER AND SURFACE WATER RATES
Last Ten Fiscal Years

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

	2023	2022	2021	2020	2019	2018
Sanitary Sewer						
Connection fee/EDU ⁽¹⁾						
Rate Zone 1	\$ 8,600	\$ 8,120	\$ 8,005	\$ 7,850	\$ 3,490	\$ 3,125
Rate Zone 2	8,600	8,120	8,005	7,850	7,615	7,330
Total Connection Revenue	\$ 6,822,106	\$ 11,256,111	\$ 8,158,439	\$ 10,359,524	\$ 5,206,286	\$ 827,629
Surface Water						
Connection fee/ESU ⁽²⁾						
Rate Zone 2	\$ 233	\$ 220	\$ 215	\$ 211	\$ 205	\$ -
Total Connection Revenue	\$ 72,658	\$ 138,311	\$ 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 surface area is calculated in whole units, with the minimum charge set at 1 ESU.

Source: WES' Records

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

PRINCIPAL RATEPAYERS WITHIN WES ⁽¹⁾
Last Ten Fiscal Years

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

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

⁽²⁾ In FY 2022, customer account name changed from Big Reflections OR LLC to GEPX Happy Valley LLC.

⁽³⁾ 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	Subscriptions & Leases	Total	Percentage of Personal Income	Per Capita
2023	\$ 118,256,052	\$ 37,677,517	\$ 137,356	\$ 156,070,925	N/A %	\$ 793
2022	125,883,961	36,000,583	4,843	161,889,387	N/A	836
2021	133,186,869	32,649,335	-	165,836,204	1.23	880
2020	89,433,491	20,999,100	-	110,432,591	0.92	598
2019	93,744,647	10,315,874	-	104,060,521	0.92	569
2018	-	-	-	-	-	-

N/A: Not available

Source: WES' Records

In Fiscal Year 2023, this chart was revised for prior year data.

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

OVERLAPPING GENERAL OBLIGATION BONDED DEBT ⁽¹⁾
June 30, 2023

Governmental Unit	Debt Outstanding	Percent Overlapping	Overlapping General Obligation Bonded Debt
Debt repaid with property taxes			
City of Gladstone	\$ 7,597,202	80.39 %	\$ 6,107,391
City of Oregon City	12,005,000	99.34	11,925,767
City of West Linn	27,035,000	99.95	27,021,483
Clackamas Community College	127,080,045	20.65	26,242,029
Clackamas County	105,100,000	15.26	16,038,260
Clackamas County Education Service District	19,855,267	15.87	3,151,031
Clackamas County Rural Fire Protection District #1	23,488,636	15.31	3,596,110
Clackamas County School District #115 (Gladstone)	22,709,934	77.34	17,563,863
Clackamas County School District #12 (North Clackamas)	639,927,666	0.28	1,791,797
Clackamas County School District #3J (West Linn/Wilsonville)	488,595,822	43.94	214,689,004
Clackamas County School District #46 (Oregon Trail)	71,866,276	100.00	71,866,276
Clackamas County School District #62 (Oregon City)	268,107,085	58.38	156,520,916
Clackamas County School District #7J (Lake Oswego)	382,387,657	0.33	1,261,879
Clackamas Soil & Water Conservation	5,416,000	15.26	826,482
Metro	822,713,920	3.82	31,427,672
Mt Hood Community College	73,420,000	16.63	12,209,746
Multnomah County Education Service District	60,233,416	1.32	795,081
Multnomah County School District #28J (Centennial)	63,177,796	7.70	4,864,690
Portland Community College	669,475,000	0.02	133,895
Tualatin Valley Fire & Rescue District	55,780,000	5.44	3,034,432
Other Debt			
City of Oregon City	11,271,296	99.34	11,196,905
City of West Linn	11,470,000	99.95	11,464,265
Clackamas Community College	16,000,000	20.65	3,304,000
Clackamas County Rural Fire Protection District #1	9,540,000	15.31	1,460,574
Clackamas County School District #12 (North Clackamas)	1,325,083	0.28	3,710
Clackamas County School District #62 (Oregon City)	141,187	58.38	82,425
Metro	10,715,000	3.82	409,313
Mt. Hood Community College	27,793,066	16.63	4,621,987
Multnomah County Education Service District	18,925,000	1.32	249,810
Port of Portland	39,375,000	3.50	1,378,125
Portland Community College	45,480,000	0.02	9,096
Tualatin Valley Fire & Rescue District	5,165,000	5.44	280,976
Total overlapping debt	\$ 4,143,172,354		\$ 645,528,990

⁽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)

PLEGGED REVENUE COVERAGE
Last Ten Fiscal Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Gross Revenues					
Monthly Service Charges	\$ 33,014,940	\$ 31,480,794	\$ 31,097,813	\$ 29,686,628	\$ 27,898,923
Operating Payment from Cities	15,274,838	14,999,551	14,784,587	14,346,181	13,801,878
Interest Earnings	4,749,033	895,174	1,080,151	1,762,557	1,806,268
Miscellaneous Income	1,513,312	1,120,103	987,048	1,361,246	1,007,099
Capital Charge Revenues	104,547	120,234	224,461	452,580	298,389
System Development Charges	6,790,217	11,274,188	8,101,717	10,044,368	4,888,525
Other Connection Charges	-	-	-	23,670	159,915
Total Gross Revenues	\$ 61,446,887	\$ 59,890,044	\$ 56,275,777	\$ 57,677,230	\$ 49,860,997
Operating Expenses					
Operation, Maintenance & Replacements	27,577,029	25,926,534	26,244,860	25,856,791	24,151,012
Total Operating Expenses	27,577,029	25,926,534	26,244,860	25,856,791	24,151,012
Net Operating Revenues	\$ 33,869,858	\$ 33,963,510	\$ 30,030,917	\$ 31,820,439	\$ 25,709,985
Revenue Bond Debt Service					
Series 2009A	-	-	-	-	1,228,150
Series 2009B	-	-	-	1,499,400	1,502,100
Series 2010	-	-	856,800	870,000	887,500
Series 2016	6,769,006	6,760,756	5,911,257	4,426,006	3,256,231
Series 2021	3,680,750	3,679,000	434,883	-	-
Total Revenue Bond Debt Service	\$ 10,449,756	\$ 10,439,756	\$ 7,202,940	\$ 6,795,406	\$ 6,873,981
Revenue Bonds Debt Service Coverage	3.24	3.25	4.17	4.68	3.74
Revenue Bonds Coverage without SDC's	2.59	2.17	3.04	3.20	3.03
Revenues Available for					
State Revolving Fund Loans	\$ 23,420,102	\$ 23,523,754	\$ 22,827,977	\$ 25,025,033	\$ 18,836,004
State Revolving Fund Loan Debt Service					
R06224	111,518	112,050	112,581	106,208	106,208
R95030	1,131,585	728,979	500,000	-	-
Total State Revolving Loan Debt Service	\$ 1,243,103	\$ 841,029	\$ 612,581	\$ 106,208	\$ 106,208
Revenues Available for Other Purposes	\$ 22,176,999	\$ 22,682,725	\$ 22,215,396	\$ 24,918,825	\$ 18,729,796

Source: WES' Records

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

DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Ended June 30,	Population Estimate	Personal Income ⁽¹⁾	Per Capita Personal Income ⁽¹⁾	Unemployment Rate (PMSA)
2023	196,913	N/A	N/A	3.3 %
2022	193,677	N/A	N/A	3.3
2021	188,381	\$ 13,469,995,024	\$ 71,504	4.9
2020	184,648	11,963,528,568	64,791	11.2
2019	182,901	11,289,747,126	61,726	3.7
2018	80,045	4,691,277,360	58,608	3.7

N/A: Not available

⁽¹⁾ Figures are for calendar year; Personal Income and Per Capita Income for 2022 and 2023 are not available.

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

In Fiscal Year 2023, this chart was revised for prior year data.

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

PRINCIPAL EMPLOYERS ⁽¹⁾
Current Year and Nine Years Ago

Employer	2023			2014		
	Employees	Rank	Percentage of Total ⁽²⁾	Employees	Rank	Percentage of Total ⁽²⁾
Intel Corp.	22,328	1	.02 %	16,700	1	.01 %
Providence Health & Services	19,687	2	.01	14,132	2	.01
Oregon Health & Sciences University	18,497	3	.01	14,106	3	.01
Nike Inc.	15,125	4	.01	7,000	10	.01
Legacy Health	13,087	5	.01	9,835	7	.01
Kaiser Permanente	12,262	6	.01	9,896	6	.01
Fred Meyer	9,374	7	.01	10,176	5	.01
Portland Public Schools	6,814	8	.01			
City of Portland	6,483	9	.00	9,318	8	.01
Multnomah County	5,307	10	.00			
U.S. Federal Govt.				13,900	4	.01
State of Oregon				7,559	9	.01
Total	128,964		0.09 %	112,622		0.10 %

Sources:

⁽¹⁾ Statistics are the latest available data published in the Portland Business Journal *Book of Lists 2023* and *Book of Lists 2014*. 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

	2023	2022	2021	2020	2019	2018
Function						
Business Services	25.7	21.7	21.8	22.2	22.6	2.8
Capital Planning and Management	16.6	17.4	17.4	17.0	16.4	4.3
Environmental Services	19.3	20.5	19.4	19.4	19.6	2.5
Operations	54.4	56.4	53.4	53.4	51.4	18.1
Total	116.0	116.0	112.0	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

	2023	2022	2021	2020	2019	2018
Sanitary Sewer						
Number of Treatment Plants	5	5	5	5	5	1
Number of Pump Stations	23	23	23	23	23	4
Miles of Pipe	360.37	358.38	356.95	355.34	348.57	19.39
<u>Tri-City Water Resource Recovery Facility</u>						
Hydraulic treatment capacities (in million gallons/day)	11.90	11.90	11.90	11.90	11.90	11.90
System Demand - Current flows (in million gallons/day)	10.56	11.62	9.84	8.11	8.31	9.90
<u>Kellogg Creek Water Resource Recovery Facility</u>						
Hydraulic treatment capacities (in million gallons/day)	10.129	10.129	10.129	10.129	10.129	-
System Demand - Current flows (in million gallons/day)	6.74	7.12	6.40	5.65	6.09	-
Estimated Sanitary EDUs ⁽¹⁾	84,727	82,950	81,996	81,267	79,194	30,152
Number of New Connections	794	1,367	992	1,260	727	262
Surface Water						
Catch Basins / Manholes	19,168	19,001	17,648	16,188	15,626	260
Miles of pipe	330.34	330.12	328.92	328.74	325.20	4.67
Estimated Surface Water ESUs ⁽²⁾	59,801	59,085	58,208	57,054	56,091	3,813

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

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

⁽²⁾ ESU - Equivalent Service Unit; One Surface Water ESU is equal to 2,500 square feet of impervious surface area with the minimum user charge set at 1 ESU.

Source: WES Records

Compliance Reports



Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise WES' basic financial statements as listed in the table of contents, and have issued our report thereon dated November 22, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

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

Portland, Oregon
November 22, 2023

Report of Independent Auditors Required by Oregon State Regulations

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise WES' basic financial statements, and have issued our report thereon dated November 22, 2023.

Compliance

As part of obtaining reasonable assurance about whether WES' basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules (OAR) 162-010-0000 to 162-010-0330, of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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

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

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

Internal Control Over Financial Reporting

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

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

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

Purpose of this Report

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

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



Ashley Osten, Partner, for
Moss Adams LLP
Portland, Oregon
November 22, 2023

