

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal years ended June 30, 2019 and 2018

Water Environment Services

(A Component Unit of Clackamas County, Oregon)



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

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal years ended June 30, 2019 and 2018

Prepared by:
WATER ENVIRONMENT SERVICES
Finance

Douglas Waugh
Finance Manager

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

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

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Introductory Section



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, 2019

<u>Name</u>	<u>Term Expires</u>
Jim Bernard, Chair Public Services Building	December 31, 2021
Sonya Fischer, Commissioner Public Services Building	December 31, 2019
Ken Humberston, Commissioner Public Services Building	December 31, 2021
Paul Savas, Commissioner Public Services Building	December 31, 2019
Martha Schrader, Commissioner Public Services Building	December 31, 2021

ADMINISTRATIVE OFFICES

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

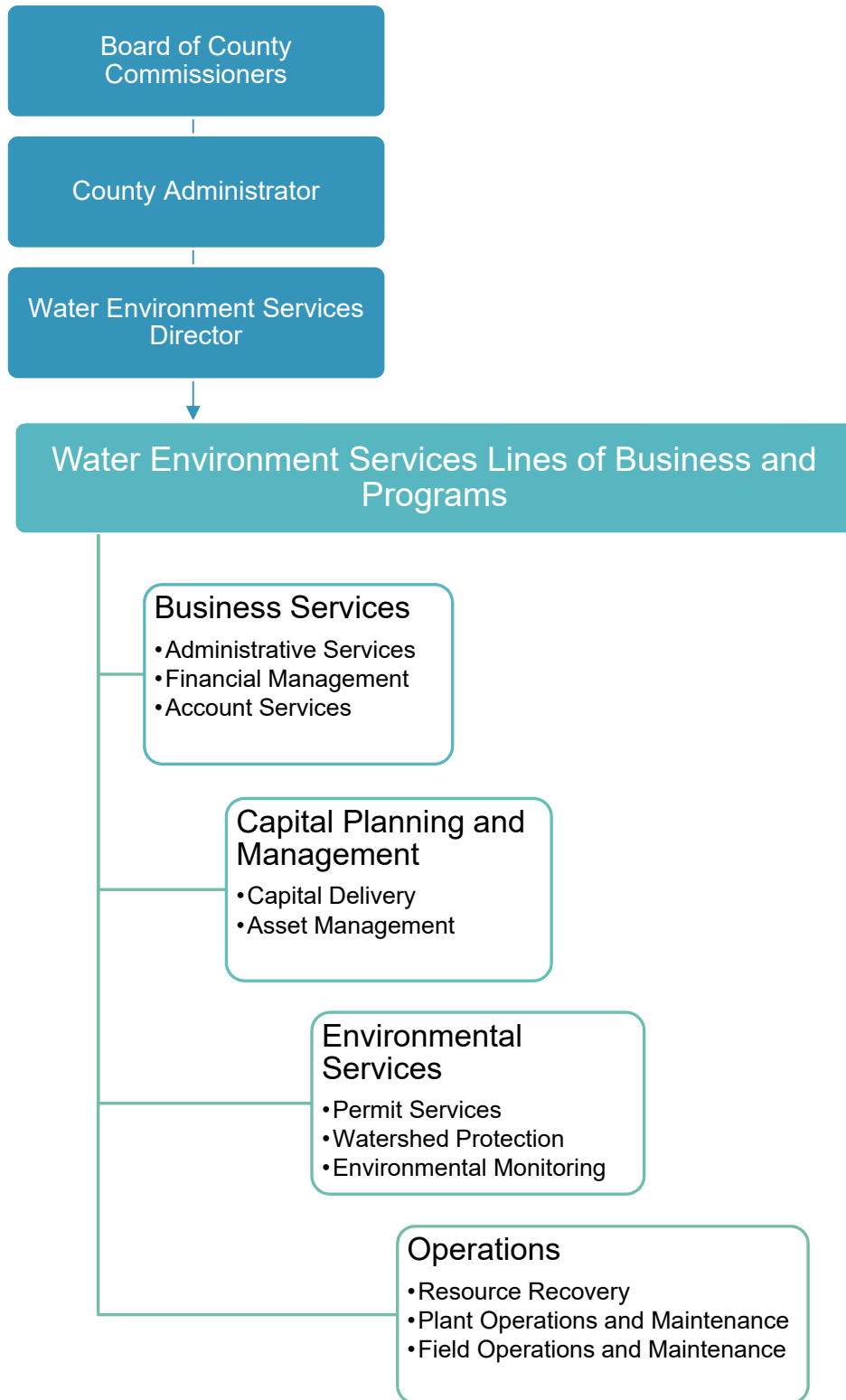
DISTRICT ADMINISTRATOR

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 2019





November 14, 2019

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

The Comprehensive Annual Financial Report for Water Environment Services (WES) (a Component Unit of Clackamas County, Oregon) for the year ended June 30, 2019, is submitted herewith. This report was prepared by the Finance section of Water Environment Services, a Department of Clackamas County (the Department), which administers WES, in accordance with the financial reporting provisions of Oregon Revised Statutes (ORS) Sections 297.405 through 297.555. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentations, including all disclosures, rests with the Department. We believe the data is accurate and complete in all material respects; that it is presented in a manner designed to present fairly the financial position, results of operations and cash flows of WES at June 30, 2019, and for the year then ended.

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

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

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

Water Environment Services – The Department

Water Environment Services of Clackamas County (the Department) was created in August 1984 to administer County service districts formed within Clackamas County, Oregon under the provisions of ORS Chapter 451. This enabling legislation established County service districts as independent municipal corporations authorized to provide a specific service within specified boundaries in the County. Prior to fiscal year 2018, the Department administered the Tri-City Service District (TCSD) (sewer services), Clackamas County Service District No. 1 (CCSD No. 1) (sewer and surface water management), and the Surface Water Management Agency of Clackamas County (SWMACC) (surface water services). For fiscal year 2018, the Department administered WES (described further below) and CCSD No. 1. Since each of these were separate legal entities in 2018, audited financial statements were prepared for each. For fiscal year 2019, the Department administered WES only and an audited financial statement has been prepared for WES only.

As specified by ORS 190, the governing body for WES is the Board of County Commissioners of Clackamas County, Oregon, and the County Administrator continues to serve as the Administrator. As a separate legal entity, the operations of WES were maintained separately from those of the County. However, under the criteria of the Governmental Accounting Standards Board, WES is considered a component unit of Clackamas County, Oregon.

Water Environment Services (WES)

Water Environment Services (WES) is a municipal partnership created in November 2016 through an Oregon Revised Statute (ORS) 190 agreement (“the Agreement”) between CCSD No. 1 and TCSD. The Agreement was amended in May of 2017 to also include SWMACC. For fiscal year 2018, the operations of TCSD and SWMACC were transferred into WES, leaving the Department to manage WES and CCSD No. 1. On July 1, 2018, the operations of CCSD No. 1 were transferred in, leaving the Department to manage WES as a single, combined entity formed from the three original districts. The Agreement establishes an advisory committee to advise the Department on decisions regarding capital improvement programs, annual budgets, financial planning, and long-term financing plans for the entire partnership.

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

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

Relevant Financial Policies

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

Prospects for the Future

It is anticipated that customer growth will be at a faster pace during the next several years. In August of 2016, ECONorthwest created an update of population projections for WES. Growth projections for the next five years are projected to be 2.9% on an annual average.

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

In July of 2012 TCSD and CCSD No. 1 purchased the former Blue Heron property in West Linn, Oregon. The primary interest was in the existing industrial outfall and associated discharge permit. This permit will address anticipated changes in the regulatory environment on the Willamette River. The permit and outfall structure was purchased in conjunction with the property. At present the site is not being used. The Remedial Investigation Report and Human Health and Ecological Risk Assessments commissioned by WES on behalf of TCSD and CCSD No. 1 were accepted by the Department of Environmental Quality (DEQ) on June 18, 2014. In July 2016, TCSD and CCSD No. 1 continued an alternatives evaluation. WES is undertaking a planning effort, referenced publicly as the Willamette Facilities Master Plan, to determine amongst other things whether the site will remain unused or remediation efforts will commence. WES has determined that no obligating events have occurred as of June 30, 2019 therefore no liability has been recorded. Please refer to Note 14 on page 36 in the Notes to Basic Financial Statements for additional information.

Independent Audit

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

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

GFOA Distinguished Budget Presentation Award

WES received the GFOA's Distinguished Budget Presentation Award for its annual budget for the 2018-19 fiscal year. In order to qualify for the Distinguished Budget Presentation Award, the budget document must meet program criteria as a policy document, as a financial plan, as an operations guide, and as a communications device.

GFOA Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to WES for its Component Unit Financial Report for the year ended June 30, 2018. In order to be awarded a Certificate of Achievement, WES published an easily readable and efficiently organized Comprehensive Annual Financial Report that conforms to program standards. The report satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe we have met the GFOA's standards for financial reporting for the year ended June 30, 2019, and therefore, WES will again be submitting its current Comprehensive Annual Financial Report to the GFOA for consideration for a Certificate of Achievement. To that end, we will advise the Board of the results of the GFOA's review of our report.

Acknowledgments

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

Respectfully submitted,

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

Greg Geist
Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Water Environment Services
Oregon**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

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Financial Section





Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the WES' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of WES as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2019 on our consideration of WES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of WES' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the *Minimum Standards for Audits of Oregon Municipal Corporations*, we have issued our report dated November 14, 2019, on our consideration of WES' compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



James C. Lanzarotta, Partner
for Moss Adams LLP
Eugene, Oregon
November 14, 2019

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019

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, 2019. All amounts, unless otherwise indicated, are expressed in thousands of dollars. This is the second year of reporting for WES, an ORS 190 organization. WES was created by a transfer of operations from both the Tri-City Service District (TCSD) and the Surface Water Management Agency of Clackamas County (SWMACC) during fiscal year (FY) 2018. Clackamas County Service District No. 1 (CCSD No. 1) was added on July 1, 2018. Consequently, the historical comparisons offered are not directly comparable.

Financial Highlights

- Assets of WES exceeded our liabilities at the close of the fiscal year by \$213,846. Of this amount, \$70,504 (unrestricted net position) may be used to meet our ongoing obligations of providing retail and wholesale sanitary sewage treatment and retail surface water services.
- WES' total assets and deferred outflows of resources are \$325,460. Capital assets, net are \$211,094 and current pooled cash and investments are \$58,475.
- Operating revenues were \$42,708. Sanitary sewer user charges were \$36,791 and surface water user charges were \$4,910.
- Operating expenses equaled \$44,234. Contracted salaries and benefits were \$12,337, depreciation and amortization were \$20,083, supplies were \$2,904, and Other County Services were \$2,898.
- On July 1, 2018, the assets and liabilities of CCSD No. 1 were transferred to WES. The \$155,565 of total net position received is presented in the Statement of Revenues, Expenses, and Changes in Net Position as Gain on transfer of operations and recognized and measured in the Statement of Net Position as of July 1, 2018. Additional details regarding this transfer of operations may be found in Note 6.
- Total net position increased \$161,355 in FY 2019 primarily due to the transfer in of CCSD No. 1's net position of \$155,565. Net investment in capital projects increased \$73,849, restricted for capital projects increased \$29,991, restricted for debt service increased \$1,320, and unrestricted net position increased \$56,195.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2019

Overview of the Financial Statements

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

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

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

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

The basic financial statements contain information relating to WES' operations and can be found on pages 14 through 17 of this report. Sanitary sewer operations are provided at the Kellogg Water Resource Recovery Facility (KWRRF) located in Milwaukie, Oregon which serves the cities of Happy Valley, Johnson City, and Milwaukie along with an unincorporated area of Clackamas County originally in CCSD No. 1 and the Tri-City Water Resource Recovery Facility (TCWRRF) located in Oregon City, Oregon which serves the cities of Oregon City, West Linn, and Gladstone. Surface water management services are provided to the unincorporated area originally in CCSD No. 1 as well as the unincorporated areas of Clackamas County which drain to the Lower Tualatin River, Oswego Lake Basins, and the City of Rivergrove.

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2019

Financial Analysis

WES was formed on November 16, 2016 with no activity prior to July 1, 2017. As such, the fiscal year 2017 reported no financial activity. In the condensed statements of net position below, the June 30, 2018 column includes the combined assets and liabilities received from TCSD and SWMACC at the beginning of FY 2018. The June 30, 2019 column includes the combined assets and liabilities received from CCSD No. 1 at the beginning of FY 2019.

Net Position
(In Thousands of Dollars)

	June 30, 2019	June 30, 2018
Current assets	\$ 74,358	\$ 14,883
Other assets, net	3,441	-
Non-current assets - restricted	34,540	2,971
Capital assets, net	211,094	35,211
Deferred outflows of resources	2,027	-
Total assets and deferred outflows of resources	325,460	53,065
Current liabilities	11,422	574
Non-current liabilities	100,192	-
Total liabilities	111,614	574
Net investment in capital assets	109,060	35,211
Restricted for capital projects	32,961	2,970
Restricted for debt service	1,321	1
Unrestricted	70,504	14,309
Total net position, end of period	\$ 213,846	\$ 52,491

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2019

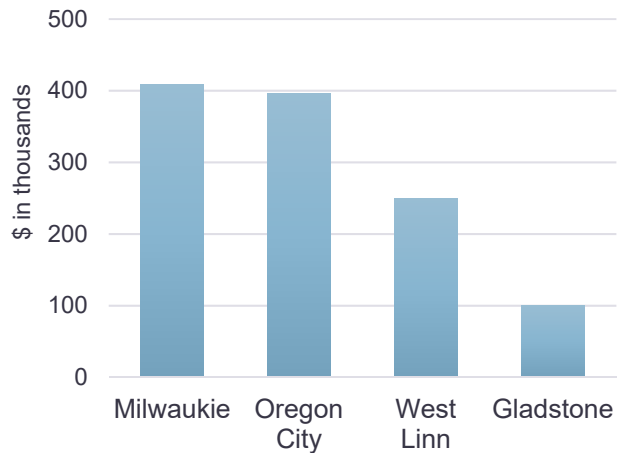
Financial Analysis (Continued)

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

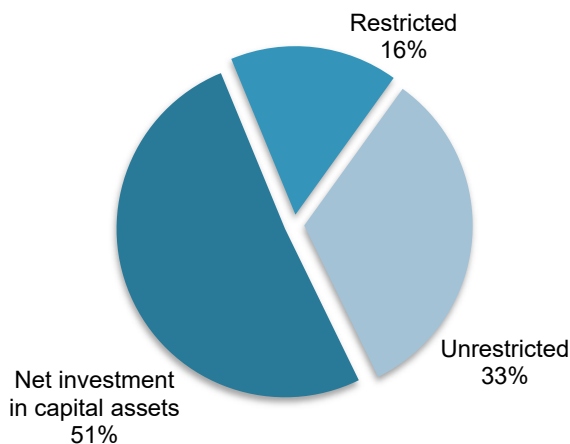
Current assets total \$74,358. Pooled cash and investments total \$58,475, contracts receivable total \$8,882, and accounts receivable total \$5,912.

Total Net Position is \$213,846. Net investments in capital assets totals \$109,060, the unrestricted portion totals \$70,504, restricted for debt service is \$1,321, and restricted for capital projects totals \$32,961.

Accounts Receivable
Major Customers of WES



Net Position

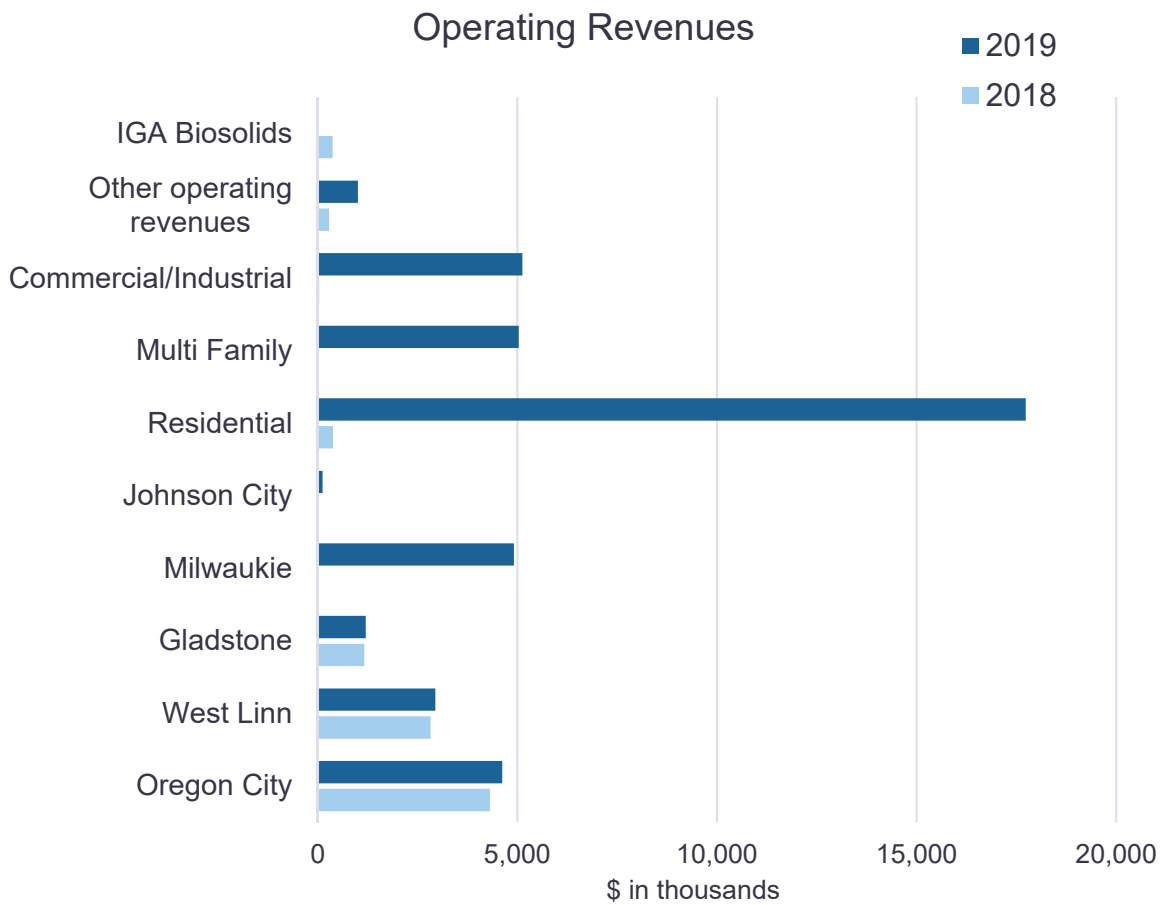


The majority of net position items are capital assets, represented by treatment facilities, land, conveyance systems, buildings, office equipment, and vehicles. Restricted assets relate to the state loans, revenue bonds, and system development charges. Unrestricted net position account for 33% of net position. These items have no external restriction concerning their use or function.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2019

Financial Analysis (Continued)

Total operating revenue was \$42,708. Sewerage charges were \$36,791, surface water charges were \$4,910, and other operating revenues were \$1,007.

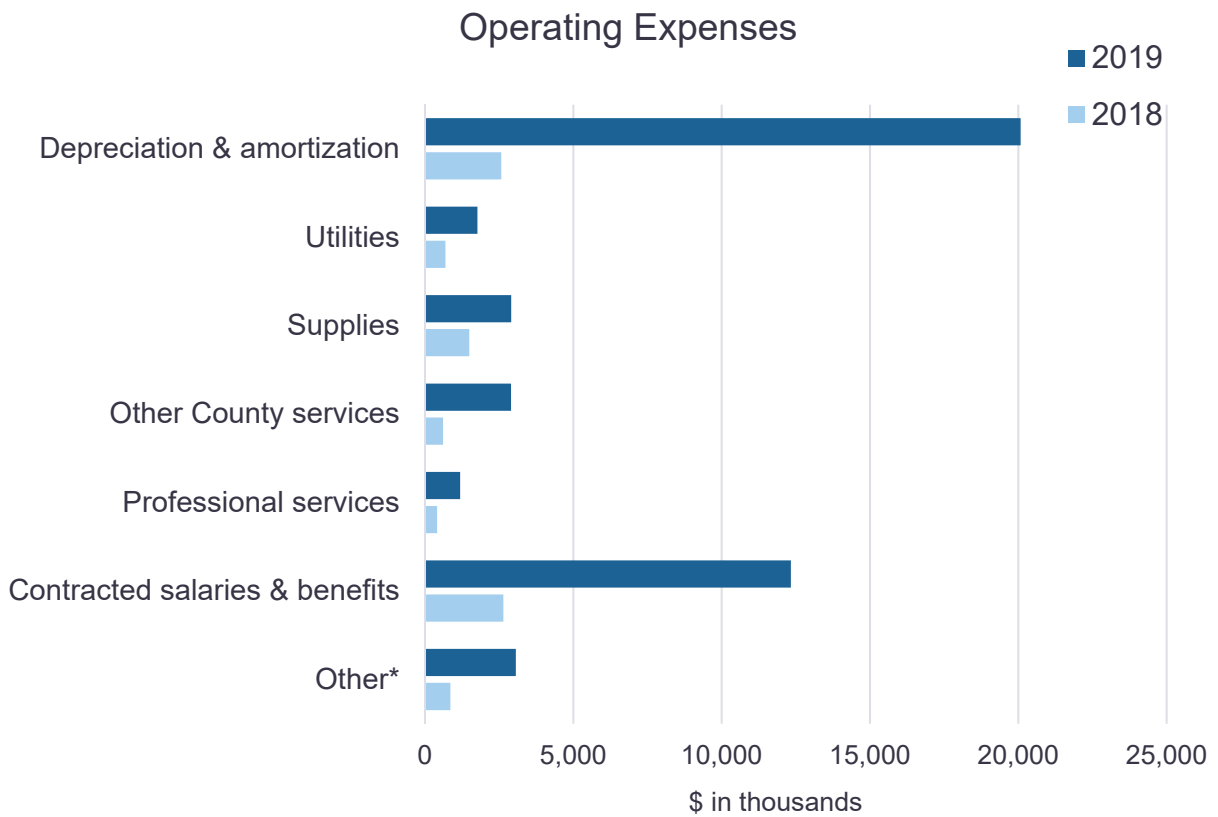


In the graph above, sewerage charges are reflected in the revenue from the cities, commercial/industrial customers, multi family, and a portion of residential customers. Surface water charges are reflected as the remaining portion of residential customers.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2019

Financial Analysis (Continued)

Total operating expenses in FY 2019 were \$44,234. Depreciation and amortization were \$20,083, contracted salaries and benefits were \$12,337, supplies were \$2,904, and other County services were \$2,898.



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

Total nonoperating expense was \$3,066. Interest income of \$1,806 and other nonoperating revenue of \$24 were offset by interest expense of \$4,896.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2019

Financial Analysis (Continued)

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

<u>Changes in Net Position</u>		
(In Thousands of Dollars)		
	2019	2018
Sanitary Sewer user charges	\$ 36,791	\$ 8,542
Surface Water user charges	4,910	186
Other operating revenues	1,007	661
Operating revenues	42,708	9,389
Contracted salaries and benefits	12,337	2,639
Material and services	31,897	6,616
Operating expenses	44,234	9,255
Operating income (loss)	(1,526)	134
Interest income	1,806	189
Interest expense	(4,896)	-
Other	24	(5)
Nonoperating revenue (expense)	(3,066)	184
Income (loss) before contributions	(4,592)	318
Contributions	10,382	973
Special Items		
Gain on transfer of operations	155,565	-
Change in net position	161,355	1,291
Net position - beginning of year	52,491	51,200
Net position - end of year	\$ 213,846	\$ 52,491

Total contributions were \$10,382. Connection charges were \$5,347 of that total.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2019

Capital Asset and Debt Analysis

WES' capital assets are \$211,094 as of June 30, 2019. The total increase in capital assets for the current fiscal year was \$175,883, \$167,277 of which is due to the transfer of CCSD No. 1's operations into WES. The remaining increase of \$8,606 results from additions to construction in progress of \$23.8 million and to collection plant of \$5 million which are partially offset by FY 2019's total depreciation recorded of \$20.1 million. Readers interested in more detailed information are referred to Note 5 of the Notes to Basic Financial Statements beginning on page 26.

Noncurrent liabilities are \$100,192 as shown in Notes 8 and 9. Long term debt is \$89,960 and long term contracts are \$10,210. Long term contracts increased \$10,210 during FY 2019. The key factor for this increase are loan proceeds related to a State of Oregon Department of Environment Quality Revolving Fund Loan which is being used to fund the Tri-City Solids Handling project.

At June 30, 2019, WES had portions of three outstanding debt issues of revenue obligations to finance capital improvements, two state revolving loans, and a refinancing issue of revenue obligations which refinanced the majority of the three series of revenue obligations mentioned above as well as one state revolving loan.

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

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

Rates and Charges

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2019

Rates and Charges (Continued)

The most recent budget adopted for FY 2020 established a retail sanitary sewer service rate of \$50.55 per equivalent dwelling unit (EDU) for all retail customers of WES. The retail sanitary sewer service fee for the City of Happy Valley is \$53.08, which included the city's Right-of-Way (ROW) fee. The budget also established a wholesale sanitary service rate of \$23.75 for the city of West Linn, an increase of 3.3%. A rate of \$25.25 per EDU was established for the city of Oregon City and a rate of \$24.95 per EDU was established for the city of Gladstone. These differentials in the rate are required to raise additional funds to pay Oregon City and Gladstone their ROW fees. The FY 2020 budget includes a surface water rate increase of \$0.20 from \$4.25 per equivalent service unit (ESU) to \$4.45 per ESU in Rate Zone 3 and an increase of \$0.35 from \$6.95 per ESU to \$7.30 per ESU in Rate Zone 2. WES' rate base allows for sufficient revenues to provide for operating expenses and continues to provide the funding necessary to finance future capital construction.

The three member cities of WES each add a charge to WES' base sanitary sewer service rate to provide for the costs associated with building and maintaining the collection systems operated by each. The cities of Oregon City, West Linn, and Gladstone added an estimated \$31.13, \$20.76, and \$9.60 per month per EDU, respectively, to the WES monthly sewer fee to provide for the costs associated with combined sewer separation and other collection system upgrades.

Economic Factors and Next Year's Budget

Growth in the sanitary sewer customer base in FY 2019 was 0.9% with approximately 727 new connections.

WES owns the former Blue Heron property in West Linn, Oregon. WES' primary interest is in the existing industrial outfall permit. This permit was purchased in conjunction with the property. At present the site is not being used and the permit should allow WES to avoid substantial future costs. A remedial investigation and feasibility analysis to deal with site contamination from historical operations at the site was completed in 2014. In July 2016, an alternatives evaluation was continued. WES is undertaking a planning effort, referenced publicly as the Willamette Facilities Master Plan, to determine amongst other things whether the site will remain unused or remediation efforts will commence. WES has determined that no obligating events have occurred as of June 30, 2019 therefore no liability has been recorded.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2019

Financial Contact

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

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Basic Financial Statements



WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Pooled cash and investments	\$ 58,474,928	\$ 13,481,646
Unbonded assessments receivable, net	167,673	-
Accrued interest receivable on assessments, net	76,846	-
Contracts receivable	8,882,051	-
Accounts receivable	5,912,102	1,271,621
Interest receivable	487,648	30,945
Prepaid expenses	356,525	99,116
Total current assets	74,357,773	14,883,328
Noncurrent assets:		
Pooled cash and investments - restricted	34,539,956	2,971,058
Capital assets:		
Land, easements and construction in progress	45,328,274	5,880,326
Plant and equipment, net	165,722,242	29,330,364
Intangible assets, net	43,357	-
Connection charges receivable, noncurrent portion	199,344	-
Bonded assessments receivable, net	114,072	-
Contracts receivable, noncurrent portion	543,074	-
Unbonded assessments receivable, noncurrent portion	2,585,118	-
Total noncurrent assets	249,075,437	38,181,748
Deferred outflows of resources:		
Deferred charges on debt refunding	2,026,804	-
Total deferred outflows of resources	2,026,804	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	325,460,014	53,065,076
LIABILITIES		
Current liabilities:		
Accounts payable	5,576,443	405,897
Contract labor payable	410,378	-
Other liabilities	179,004	-
Unearned income	69,100	-
Due to Clackamas County	1,038,574	168,511
Accrued interest payable, payable from restricted assets	257,799	-
Loan payable, current portion	106,208	-
Current portion of long term debt, payable from restricted assets	3,785,000	-
Total current liabilities	11,422,506	574,408
Noncurrent liabilities		
Long term unearned income, net of current portion	22,600	-
Long term debt, net of current portion, payable from restricted assets	89,959,647	-
Long term contracts, net of current portion	10,209,666	-
Total noncurrent liabilities	100,191,913	-
TOTAL LIABILITIES	111,614,419	574,408
NET POSITION		
Net investment in capital assets	109,060,156	35,210,690
Restricted for capital projects	32,961,203	2,970,510
Restricted for debt service	1,320,954	548
Unrestricted	70,503,282	14,308,920
TOTAL NET POSITION	\$ 213,845,595	\$ 52,490,668

The accompanying notes are an
integral part of the 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, 2019 and 2018

	2019	2018
Operating revenues:		
Sanitary Sewer user charges	\$ 36,790,480	\$ 8,542,389
Surface Water user charges	4,910,321	185,646
Intergovernmental revenue	-	375,145
Other operating revenues	1,007,099	285,617
	42,707,900	9,388,797
Operating expenses:		
Contracted salaries and benefits	12,337,188	2,639,533
Professional services	1,181,977	408,852
Laboratory services	31,724	247,851
Other County services	2,897,557	606,616
Supplies	2,904,075	1,488,169
Vehicle expenses	815,631	181,037
Repairs and maintenance	960,286	88,552
Utilities	1,767,914	685,523
Insurance	404,918	163,480
Other expenses	849,742	173,503
Depreciation and amortization	20,082,869	2,571,997
	44,233,881	9,255,113
Operating income (loss)	(1,525,981)	133,684
Nonoperating revenues (expenses):		
Interest income	1,806,268	189,261
Interest expense	(4,896,003)	-
Dispatchable power	69,100	-
Loss on disposal of capital assets	(45,338)	(4,761)
	(3,065,973)	184,500
Income (loss) before contributions and special item	(4,591,954)	318,184
Contributions:		
Connection charges	5,346,829	827,629
Capital contributions	5,034,881	145,208
	10,381,710	972,837
Special Items:		
Gain on transfer of operations	155,565,171	-
Change in net position	161,354,927	1,291,021
Net position - beginning of year	52,490,668	51,199,647
Net position - end of year	\$ 213,845,595	\$ 52,490,668

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF CASH FLOWS
for the fiscal years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Received from customers	\$ 41,606,122	\$ 9,087,877
Payments to suppliers for goods and services	(8,959,251)	(3,103,256)
Payments to related entities for services	(15,057,790)	(3,458,584)
Other operating revenue	1,081,844	141,485
Net cash from operating activities	18,670,925	2,667,522
Cash flows from noncapital financing activities:		
Cash received in connection with CCSD No. 1 transfer of operations ⁽¹⁾	78,381,039	-
Net cash from noncapital financing activities	78,381,039	-
Cash flows from capital and related financing activities:		
Bond principal paid	(3,715,000)	-
Interest paid on bonds and contracts	(3,166,416)	-
Assessment and contract principal collected	409,231	-
Interest received on assessments and contracts	167,409	-
Connection charges collected	5,297,330	1,234,564
Capital contributed by customers/governments	82,089	145,208
Payments made on note payable	(106,208)	-
Acquisition of capital assets, net of dispositions	(21,039,909)	(2,213,239)
Net cash from capital and related financing activities	(22,071,474)	(833,467)
Cash flows from investing activities:		
Interest received	1,581,690	171,914
Net cash from investing activities	1,581,690	171,914
Net change in cash and cash equivalents	(1,818,859)	2,005,969
Pooled cash and investments, beginning of year	16,452,704	14,446,735
Pooled cash and investments, end of year ⁽²⁾	\$ 93,014,884	\$ 16,452,704

⁽¹⁾ Please see Note 6 for details.

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

Current assets - unrestricted	\$ 58,474,928	\$ 13,481,646
Noncurrent assets - restricted	34,539,956	2,971,058
	\$ 93,014,884	\$ 16,452,704

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF CASH FLOWS
for the fiscal years ended June 30, 2019 and 2018

	2019	2018
Reconciliation of operating income to net cash from operating activities:		
Operating income (loss)	\$ (1,525,981)	\$ 133,684
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	20,082,869	2,571,997
Changes in assets and liabilities:		
Increase in sewerage charges and other receivables	(36,750)	(147,611)
Decrease (increase) in prepaid expenses	(63,004)	35,747
Increase in accounts payable and Due to Clackamas County	131,850	85,528
Increase in Contract labor payable	30,096	-
Increase (decrease) in other liabilities	51,845	(11,823)
Total adjustments	20,196,906	2,533,838
Net cash from operating activities	\$ 18,670,925	\$ 2,667,522
Noncash capital activity		
Net capital assets from CCSD No. 1 transfer of operations ⁽¹⁾	\$ 167,276,900	\$ -
Contributions of capital assets from governments, developers and customers	4,952,792	-

⁽¹⁾ Please see Note 6 for details.

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018

1. Summary of Significant Accounting Policies

Reporting Entity

Water Environment Services (“WES”) is a municipal partnership created in November 2016 through an Oregon Revised Statute (ORS) 190 agreement (“the Agreement”) between Clackamas County Service District No. 1 (“CCSD No. 1”) and the Tri-City Service District (“TCSD”). The Agreement was amended in May of 2017 to also include the Surface Water Agency of Clackamas County (“SWMACC”). For fiscal year 2018, the operations of TCSD and SWMACC were transferred into WES. 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 is financially accountable for and significantly influences the operations of WES and the Clackamas County Board of Commissioners also serves as WES’ Board, WES is included as a blended component unit in the Comprehensive Annual Financial Report of Clackamas County, Oregon for the year ended June 30, 2019.

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

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

Basis of Accounting

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

Pooled Cash and Investments

Pooled cash and investments are comprised of funds held and invested by the Clackamas County Treasurer and the State of Oregon Treasurer's Local Government Investment Pool (LGIP). Financial information required by Governmental Accounting Standards Board Statements (GASB) No. 3, No. 31, No. 40, and No. 72 regarding the accounting and financial reporting for WES' pooled cash and investments, held by the Clackamas County Treasurer, has been disclosed in the County's Comprehensive Annual Financial Reports for the fiscal years ended June 30, 2019 and June 30, 2018. For purposes of the Statement of Cash Flows, pooled cash and investments include all cash and investments held by the Clackamas County Treasurer and LGIP, since they have the general characteristics of a demand deposit account.

Investments in the LGIP are stated at cost which approximates fair value and its share value.

The LGIP is administered by the Oregon State Treasurer. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the state that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local government in Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which is not registered with the US Securities and Exchange Commission as an investment company. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

Assessments Receivable

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

The balance of the allowance at June 30, 2019 is \$578,039 of which \$204,095 is accrued interest. Assessments receivable arise from both bonded and unbonded sources. Bonded assessments were funded through revenue bond sales. Unbonded assessments were funded from WES' operations

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

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

Restricted Assets and Related Liabilities

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

Capital Assets

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

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

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

Intangible Assets

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

Deferred Outflows of Resources

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

Bonds

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following four components: Net investment in capital assets, Restricted for capital projects; Restricted for debt service; and Unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt (revenue bonds and other debt obligations) that is attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital projects and debt service consists of net position, on which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including legal mandates. The balance in Restricted for capital projects of \$32,961,203 is restricted due to enabling legislation. This balance relates to unspent System Development Charges. Unrestricted net position consists of all other assets, not included in the above categories.

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

Use of Estimates

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

Special Items

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

Adoption of New GASB Pronouncements

During the fiscal year ended June 30, 2019, the following new GASB pronouncements became effective:

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

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

Future Adoption of GASB Pronouncements

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2019:

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

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

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

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

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, depreciation and amortization are recognized in the financial statements but are not budgeted expenditures.

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

2. Stewardship, Compliance, and Accountability (Continued)

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

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

No supplemental budgets or appropriation transfers were made during the year ended June 30, 2019. All annual appropriations lapse at fiscal year end.

3. Pooled Cash and Investments

Pooled cash and investments are comprised of the following:

	2019	2018
Petty Cash	\$ 1,200	\$ 100
Pooled cash and investments	93,013,684	16,452,604
	\$ 93,014,884	\$ 16,452,704

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

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

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

3. Pooled Cash and Investments (Continued)

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

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

Reference may be made to the June 30, 2019 Comprehensive Annual Financial Reports of Clackamas County for the classifications of WES' pooled accounts maintained by the County Treasurer.

State statutes authorize WES to invest in general obligations of the U.S. Government and in its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements and bankers' acceptances, among others. Reference should be made to the June 30, 2019 Comprehensive Annual Financial Reports of Clackamas County for compliance with these statutes.

Investments in the LGIP are stated at fair value, which approximates cost. The Oregon State Treasury administers the LGIP. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the State who by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local government in Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which is not registered with the U.S. Securities and Exchange Commission as an investment company.

The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. The Oregon Short-Term Fund financial statements and its portfolio rules can be obtained at www.ost.state.or.us. The LGIP is not rated by any national rating service. The LGIP is stated at fair value, which approximates cost. Fair value is the same as WES' value in the pool shares.

Custodial Credit Risk

WES is exposed to custodial credit risk because its cash and investments are held by a counterparty in the counterparty's name. This is the risk that in the event of failure of the counterparty, WES' deposits may not be returned. WES' cash and investments are held by Clackamas County in a pool. 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.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

3. Pooled Cash and Investments (Continued)

Custodial Credit Risk (Continued)

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

Credit Risk

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

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

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

4. Accounts Receivable

Amounts are comprised of the following:

	2019	2018
User charges	\$ 4,730,481	\$ 822,736
Connection charges from cities	194,000	104,884
Current connection charges receivable, including interest of \$10,728 at June 30, 2019	35,209	-
Interest receivable on unbonded assessments	737,778	-
Intergovernmental agreement and miscellaneous receivables	214,634	344,001
	\$ 5,912,102	\$ 1,271,621

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

5. Capital Assets

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

5. Capital Assets (Continued)

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

6. Transfer of Operations

On November 3, 2016, TCSD and CCSD No. 1 entered into an ORS 190 Partnership Agreement (the "Agreement") which formed the municipal entity "Water Environment Services" ("WES") to jointly own, operate and manage the functions and assets of the two districts to provide reduced costs, create regulatory efficiencies, and improved service. SWMACC joined the WES entity on May 18, 2017 to allow full realization of the above-described benefits for all parties. All three service districts were included as blended component units in the Comprehensive Annual Financial Report (CAFR) of Clackamas County, Oregon for the year ended June 30, 2017. WES and CCSD No. 1 were included as blended component units in the CAFR of Clackamas County, Oregon for the year ended June 30, 2018. WES is included as a blended component unit in the CAFR of Clackamas County, Oregon for the year ended June 30, 2019.

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

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

The net position transferred is presented as a special item on the Statements of Revenues, Expenditures, and Changes in Net Position. Pursuant to the WES agreement, WES was assigned ownership and management of all of CCSD No. 1's existing contracts effective July 1, 2018.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

7. Contracts Receivable

WES entered into a loan agreement with the State of Oregon Department of Environment Quality (DEQ) for a Clean Water State Revolving Loan in November 2018. The loan is being used to finance construction of the Tri-City Solids Handling Improvement project with disbursements of the loan proceeds made by the DEQ following submission of eligible invoices by WES. As of June 30, 2019, reimbursable expenses of \$8,882,051 had been submitted and were approved; this amount is reported as current contracts receivable in the Statements of Net Position.

A sale agreement and note receivable dated May 17, 2012, with Clackamas County provided for the sale of the WES' portion of the building located at 9101 SE Sunnybrook Boulevard. Per the terms of the agreement, interest will accrue on the principal at the rate of 4.325% per annum until the note's maturity date of December 31, 2022. The balance of the note was \$446,360, plus accrued interest in the amount of \$215,478 in 2019.

8. Loans Payable

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

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

In November 2018, WES entered into a loan agreement with the State of Oregon DEQ for a Clean Water State Revolving Loan. The total amount of the loan is \$37,000,000 at 2.14% interest to finance construction of the Tri-City Solids Handling Improvement project. As of June 30, 2019, reimbursable expenses of \$8,882,051 had been submitted and were approved. Loan payments, in semi-annual installments of principal and interest over 20 years will commence following completion of the construction project, which is estimated to occur in 2022.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

8. Loans Payable (Continued)

These loans are collateralized by future sewer revenues and contain certain financial covenants. As of June 30, 2019, Management believes WES was in compliance with these covenants.

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

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

Future maturities of revolving loans are as follows:

Fiscal Year	Principal	Interest	Admin. Fees	Total
2020	\$ 106,208	\$ -	\$ 6,904	\$ 113,112
2021	106,208	-	6,373	112,581
2022	106,208	-	5,842	112,050
2023	106,208	-	5,310	111,518
2024	106,208	-	4,779	110,987
2025-2029	531,040	-	15,930	546,970
2030-2033	371,743	-	3,186	374,929
	<u>\$ 1,433,823</u>	<u>\$ -</u>	<u>\$ 48,324</u>	<u>\$ 1,482,147</u>

9. Long Term Debt

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

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

9. Long Term Debt (Continued)

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

	2019
Current maturities - face value	\$ 3,785,000
	\$ 3,785,000
Future maturities - face value	\$ 81,015,000
Premium	8,944,647
	\$ 89,959,647

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

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

In August of 2016, revenue obligation series 2016 were issued in the amount of \$83,250,000 with an all-in interest rate of 2.20%. The proceeds were used to advance refund \$77,070,000 of outstanding 2009A, 2009B, and 2010 revenue obligations and to pay off outstanding Oregon DEQ Clean Water State Revolving Fund Loan R22403, which had interest rates ranging from 2.77% to 4.7%. The net proceeds of \$85,876,532 (including a \$10,523,115 premium and after payment of \$1,519,115 in underwriting fees and other issuance costs and the payoff of Loan R22403 in the amount of \$6,377,468) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds. As a result, portions of the 2009A, 2009B, and 2010 are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$8,826,731. This amount is being reported in the statements of net position as a deferred outflow of resources and amortized over the remaining life of the refunded debt in accordance with GASB 65. At June 30, 2019 the balance was \$2,026,804. The advance refunding of portions of the 2009A, 2009B, and 2010 bonds and refinancing of Loan R22403 were done to reduce total annual debt service payments by approximately \$625,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$9.7 million. The refinancing also released approximately \$7.6 million in reserves that was used for capital projects.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

9. Long Term Debt (Continued)

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

Maturities of 2009B bond principal at June 30, 2019 are as follows:

Fiscal Year	Principal	Interest
2020	\$ 1,470,000	\$ 29,400
	<u>\$ 1,470,000</u>	<u>\$ 29,400</u>

Maturities of 2010 bond principal at June 30, 2019 are as follows:

Fiscal Year	Principal	Interest
2020	\$ 820,000	\$ 50,000
2021	840,000	16,800
	<u>\$ 1,660,000</u>	<u>\$ 66,800</u>

Maturities of 2016 bond principal at June 30, 2019 are as follows:

Fiscal Year	Principal	Interest
2020	\$ 1,495,000	\$ 2,931,006
2021	3,095,000	2,816,256
2022	4,125,000	2,635,756
2023	4,345,000	2,424,006
2024	4,705,000	2,197,757
2025-2029	27,260,000	7,262,207
2030-2034	31,125,000	2,719,928
2035-2036	5,520,000	110,250
	<u>\$ 81,670,000</u>	<u>\$ 23,097,166</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. WES has also agreed to maintain restricted reserve accounts to provide for the payment of debt service in the event that pledged revenues are not sufficient to pay debt service when due. Management believes WES was in compliance with these covenants during the year ended June 30, 2019.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

9. Long Term Debt (Continued)

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

At June 30, 2019, 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, 2019 Revenue	For the Year Ended June 30, 2019 Debt (P&I) Payments
State Loan R06224	Sewer Assessments	2033	\$ 1,433,823	\$ 25,709,986	* \$ 106,208
Revenue Obligations 2009A	Sewer Fees	2019	-	-	18,150
Revenue Obligations 2009B	Sewer Fees	2020	1,470,000	-	1,557,100
Revenue Obligations 2010	Sewer Fees	2021	1,660,000	-	902,500
Revenue Obligations 2016	Sewer Fees	2036	81,670,000	-	4,466,231
Total			<u>\$ 86,233,823</u>	<u>\$ 25,709,986</u>	<u>\$ 7,050,189</u>

* Same net revenue source pledged for multiple purposes.
Total Gross Revenues of \$49,860,997 less Total Operating Expenses of \$24,151,011.

10. Related Party Transactions

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

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

During fiscal years 2019 and 2018, fiscal and accounting functions and certain repairs and maintenance on plant and equipment were performed by personnel of various Clackamas County departments, including Department of Transportation and Development, Clackamas County Service District No. 1, and County Treasurer. Operating expenses in the Statements of Revenues, Expenses and Changes in Net Position for 2019 and 2018, charged by the above departments, totaled approximately \$15,219,448 and \$3,479,772 respectively.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

10. Related Party Transactions (Continued)

At June 30, related party balances consist of:

	Receivable		Payable	
	2019	2018	2019	2018
Clackamas County	\$ 679,280	\$ -	\$ 1,038,574	\$ 168,511
Clackamas County - Contract labor payable	-	-	410,378	-
Subtotal	<u>679,280</u>	<u>-</u>	<u>1,448,952</u>	<u>168,511</u>
Clackamas County Service District No. 1	-	173,181	-	-
Subtotal	<u>-</u>	<u>173,181</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 679,280</u>	<u>\$ 173,181</u>	<u>\$ 1,448,952</u>	<u>\$ 168,511</u>

The 2018 related party receivable from Clackamas County Service District No. 1 represents WES' share of equity in the 2012 sale of the Sunnybrook Building to Clackamas County. This receivable was eliminated through the transfer of CCSD No. 1's operations into WES on July 1, 2018 and accompanying consolidation of accounts.

An intergovernmental agreement dated 2008 and amended on May 12, 2011 provided for CCSD No. 1 to use WES' treatment facilities at the Tri-City Water Resource Recovery Facility (TCWRRF) in exchange for a share of the operations and maintenance expenses of the facility. With the transfer of CCSD No. 1's operations into WES on July 1, 2018, this cost-sharing agreement is no longer in effect.

Per the agreement, in prior fiscal years, CCSD No. 1's annual cost share was based on the district's estimated use of WES' facilities, which was evaluated on an annual basis by management. In FY 2017-18, CCSD No. 1's cost-share amount was approximately \$1,051,000, or 25% of total plant operating and maintenance costs.

An IGA dated January 6, 2011 provided for treatment of CCSD No. 1's biosolids at WES' TCWRRF facility. Per the terms of this IGA, Clackamas County Service District No. 1 paid WES \$375,145 in FY 2017-18 for biosolids treatment services. With the transfer of CCSD No. 1's operations into WES on July 1, 2018, this IGA is no longer in effect.

11. Commitments

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

- The Cities will process and review all permit applications for hookup and inspection; operate and maintain local collection facilities; bill and collect sewer user charges and connection charges.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

11. Commitments (Continued)

- 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 Milwaukie and Johnson City to provide wholesale sanitary sewer service according to a 25 year wholesale service agreement codified in FY 2012-13.

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

	2019	2018
Sanitary Sewer user charges	\$ 13,801,878	\$ 8,308,940
Connection charges	831,310	818,973
Pump station maintenance charges	-	384
	\$ 14,633,188	\$ 9,128,297

WES is committed under contractual agreements for various multi-year contracts related to capital acquisition and service agreements. The total contract costs are approximately \$79.8 million. As of June 30, 2019, approximately \$48.2 million of these contracts remain outstanding.

12. Litigation

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

13. Risk Management

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

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

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2019 and 2018

13. Risk Management (Continued)

The County is responsible for any workers' compensation risk. All risk of loss related to the self-insurance program is borne by the County. The County is fully self-insured for unemployment benefits, short-term disability benefits, employment practice liability issues, and partially self-insured for dental benefits and workers' compensation. The County carries coverage in excess of \$1,000,000 with an outside insurer for workers' compensation claims. Settled claims have not reached the commercial coverage in any of the past three fiscal years. No significant reduction in insurance coverage has occurred in the current year for any category of risk.

14. Pollution Remediation

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

On July 19, 2012 the DEQ issued a Consent Order to CCSD No. 1 and TCSD approving a Prospective Purchaser Agreement. The purpose of the agreement was to: (a) protect the public health, safety, and welfare and the environment through the design and implementation of remedial measures on the Blue Heron site; (b) to facilitate productive reuse of the property; and (c) to provide CCSD No. 1 and TCSD with protection from potential liabilities in accordance with applicable law. The Remedial Investigation Report and Human Health and Ecological Risk Assessments commissioned by the Department on behalf of CCSD No. 1 and TCSD were accepted by DEQ on June 18, 2014. In July 2016, CCSD No. 1 and TCSD continued an alternatives evaluation. The agreement was transferred to WES as part of the consolidation completed June 30, 2018. WES is undertaking a planning effort, referenced publicly as the Willamette Facilities Master Plan, to determine amongst other things whether the site will remain unused or remediation efforts will commence. WES has determined that no obligating events have occurred as of June 30, 2019 therefore no liability has been recorded.

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Supplementary Information



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

Basis of Accounting

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

Fund Descriptions

Sanitary Sewer Operating Fund

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

Sanitary Sewer System Development Charge Fund

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

State Loan Debt Service Fund

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

Revenue Bond Debt Service Fund

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

Sanitary Sewer Construction Fund

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

Surface Water Operating Fund

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

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 revenue 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, 2019
(with comparative totals for the year ended June 30, 2018)

	2019			2018 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Sanitary Sewer user charges	\$ 37,127,250	\$ 37,049,343	\$ (77,907)	\$ 8,542,389
Interest on investments	150,800	250,852	100,052	55,940
System development charges	5,000	33,793	28,793	-
Special connection charges	220,000	298,390	78,390	-
Interest non-bonded installment	10,000	34,751	24,751	-
Pump station operation charges	-	-	-	384
Intergovernmental revenue	244,300	-	(244,300)	375,145
Miscellaneous	672,200	592,667	(79,533)	277,171
Contribution from TCSD	-	-	-	4,164,847
Contribution from CCSD No. 1	-	5,239,548	5,239,548	-
Total revenues	38,429,550	43,499,344	5,069,794	13,415,876
EXPENDITURES:				
Materials and services	23,597,518	20,624,590	2,972,928	6,614,900
Contingency	3,933,000	-	3,933,000	-
Total expenditures	27,530,518	20,624,590	6,905,928	6,614,900
Revenues over (under) expenditures	10,899,032	22,874,754	11,975,722	6,800,976
OTHER FINANCING USES:				
Transfers to other funds:				
Revenue Bond Fund	(6,873,981)	(6,873,981)	-	-
Sanitary Sewer Construction Fund	(10,000,000)	(10,000,000)	-	(2,000,000)
Total transferred to other funds	(16,873,981)	(16,873,981)	-	(2,000,000)
Net change in fund balance	(5,974,949)	6,000,773	11,975,722	4,800,976
Fund balance - beginning	7,540,172	4,800,976	(2,739,196)	-
Fund balance - ending	<u>\$ 1,565,223</u>	10,801,749	<u>\$ 9,236,526</u>	<u>\$ 4,800,976</u>
Adjustment to GAAP basis:				
Mortgage connection receivable		234,553		
Capital assets (net of accumulated depreciation)		188,195,216		
Prepaid expenses		15,318		
Bonds receivable		1,187,086		
Interest receivable		242,718		
Due to other entities		(303,019)		
Bond assessments receivable		519,653		
Contracts receivable		543,074		
Other long term liabilities		(22,600)		
Other		(59,100)		
Net position - GAAP basis		<u>\$ 201,354,648</u>		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

	2019			
	Original And Final Budget	Actual	Variance with Final Budget	2018 Actual
REVENUES:				
Connection charges	\$ 5,535,485	\$ 4,747,981	\$ (787,504)	\$ 827,629
Interest on investments	516,300	455,759	(60,541)	34,364
Contributions from TCSD	-		-	2,769,220
Contributions from CCSD No. 1	-	22,917,866	22,917,866	-
Total revenues	6,051,785	28,121,606	22,069,821	3,631,213
EXPENDITURES:				
Capital Outlay	3,146,500	141,985	3,004,515	555,818
Contingency	786,625	-	786,625	-
Total expenditures	3,933,125	141,985	3,791,140	555,818
Revenues over (under) expenditures	2,118,660	27,979,621	25,860,961	3,075,395
Net change in fund balance	2,118,660	27,979,621	25,860,961	3,075,395
Fund balance - beginning	25,816,456	3,075,395	(22,741,061)	-
Fund balance - ending	\$ 27,935,116	31,055,016	\$ 3,119,900	\$ 3,075,395
Adjustment to GAAP basis:				
Interest receivable		75,868		
Net position - GAAP basis		\$ 31,130,884		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

	2019			2018 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Assessments collected	\$ 179,700	\$ 500,658	\$ 320,958	\$ -
Interest on assessments	120,000	147,578	27,578	-
Interest on investments	15,133	17,265	2,132	7
Contributions from TCSD	-	-	-	541
Contributions from CCSD No. 1	-	727,185	727,185	-
	314,833	1,392,686	1,077,853	548
EXPENDITURES:				
Principal	106,208	106,208	-	-
Interest	7,435	7,435	-	-
	113,643	113,643	-	-
Revenues over (under) expenditures	201,190	1,279,043	1,077,853	548
Net change in fund balance	201,190	1,279,043	1,077,853	548
Fund balance - beginning	756,636	548	(756,088)	-
Fund balance - ending	\$ 957,826	1,279,591	\$ 321,765	\$ 548
Adjustment to GAAP basis:				
Loans payable		(10,315,874)		
Bond assessments receivable		2,603,982		
Interest receivable		432,405		
Net position - GAAP basis		\$ (5,999,896)		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2019

	2019		
	Original And Final Budget	Actual	Variance with Final Budget
REVENUES:			
Interest collections	\$ 15,000	\$ 17,535	\$ 2,535
Interest on investments	4,300	4,722	422
Contributions from CCSD No. 1	-	353,750	353,750
Total revenues	19,300	376,007	356,707
EXPENDITURES:			
Principal	3,715,000	3,715,000	-
Interest	3,158,981	3,158,981	-
Total expenditures	6,873,981	6,873,981	-
Revenues over (under) expenditures	(6,854,681)	(6,497,974)	356,707
OTHER FINANCING SOURCES:			
Transfer from other funds:			
Sanitary Sewer Operating Fund	6,873,981	6,873,981	-
Net change in fund balance	19,300	376,007	356,707
Fund balance - beginning	217,306	-	(217,306)
Fund balance - ending	\$ 236,606	376,007	\$ 139,401
Adjustment to GAAP basis:			
Due from NCSA B&I		(1,187,086)	
Capitalized bond premium/discount		(8,944,647)	
Long term debt		(78,988,196)	
Happy Valley lien		114,072	
Bonds payable		(3,785,000)	
Interest payable		(257,798)	
Interest receivable		735	
Net position - GAAP basis		\$ (92,671,913)	

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, 2019
(with comparative totals for the year ended June 30, 2018)

	2019			2018 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Interest on investments	\$ 945,700	\$ 643,401	\$ (302,299)	\$ 75,705
Miscellaneous	-	86,455	86,455	145,208
SRF Capital Project Contribution	12,800,000	8,882,051	(3,917,949)	-
Contributions from TCSD	-	-	-	8,167,753
Contributions from CCSD No. 1	-	36,968,598	36,968,598	-
Total revenues	<u>13,745,700</u>	<u>46,580,505</u>	<u>32,834,805</u>	<u>8,388,666</u>
EXPENDITURES:				
Capital Outlay	39,738,500	21,476,091	18,262,409	1,644,118
Contingency	9,934,625	-	9,934,625	-
Total expenditures	<u>49,673,125</u>	<u>21,476,091</u>	<u>28,197,034</u>	<u>1,644,118</u>
Revenues over (under) expenditures	<u>(35,927,425)</u>	<u>25,104,414</u>	<u>61,031,839</u>	<u>6,744,548</u>
OTHER FINANCING SOURCES:				
Transfer from other funds:				
Sanitary Sewer Operating Fund	10,000,000	10,000,000	-	2,000,000
Net change in fund balance	<u>(25,927,425)</u>	<u>35,104,414</u>	<u>61,031,839</u>	<u>8,744,548</u>
Fund balance - beginning	<u>47,287,083</u>	<u>8,744,548</u>	<u>(38,542,535)</u>	<u>-</u>
Fund balance - ending	<u>\$ 21,359,658</u>	43,848,962	<u>\$ 22,489,304</u>	<u>\$ 8,744,548</u>
Adjustment to GAAP basis:				
Interest receivable		<u>96,499</u>		
Net position - GAAP basis		<u>\$ 43,945,461</u>		

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

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

	2019			2018 Actual
	Original And Final Budget	Actual	Variance with Final Budget	
REVENUES:				
Surface water user charges	\$ 4,953,200	\$ 4,910,321	\$ (42,879)	\$ 185,646
Interest on investments	157,000	160,304	3,304	5,899
Miscellaneous income	255,000	207,457	(47,543)	8,127
Contributions from SWMACC	-	-	-	562,433
Contributions from CCSD No. 1	-	8,675,340	8,675,340	-
	<u>5,365,200</u>	<u>13,953,422</u>	<u>8,588,222</u>	<u>762,105</u>
EXPENDITURES:				
Materials and services	5,218,049	3,711,515	1,506,534	134,538
Contingency	870,000	-	870,000	-
	<u>6,088,049</u>	<u>3,711,515</u>	<u>2,376,534</u>	<u>134,538</u>
Revenues over (under) expenditures	<u>(722,849)</u>	<u>10,241,907</u>	<u>10,964,756</u>	<u>627,567</u>
OTHER FINANCING USES:				
Transfers to other funds:				
Surface Water Construction Fund	(1,000,000)	(1,000,000)	-	-
	<u>(1,722,849)</u>	<u>9,241,907</u>	<u>10,964,756</u>	<u>627,567</u>
Net change in fund balance	<u>(1,722,849)</u>	<u>9,241,907</u>	<u>10,964,756</u>	<u>627,567</u>
Fund balance - beginning	8,666,707	627,567	(8,039,140)	-
Fund balance - ending	<u>\$ 6,943,858</u>	<u>9,869,474</u>	<u>\$ 2,925,616</u>	<u>\$ 627,567</u>
Adjustment to GAAP basis:				
Due from Sanitary Sewer Operating Fund		124,015		
Capital assets (net of accumulated depreciation)		22,898,658		
Interest receivable		23,359		
Net position - GAAP basis		<u>\$ 32,915,506</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, 2019

	2019		
	Original And Final Budget	Actual	Variance with Final Budget
REVENUES:			
System development charges	\$ 102,500	\$ 140,543	\$ 38,043
Interest on investments	37,300	31,939	(5,361)
Contributions from CCSD No. 1	-	1,912,064	1,912,064
	139,800	2,084,546	1,944,746
EXPENDITURES:			
Capital Outlay	500,000	-	500,000
Contingency	125,000	-	125,000
	625,000	-	625,000
Revenues over (under) expenditures	(485,200)	2,084,546	2,569,746
Net change in fund balance	(485,200)	2,084,546	2,569,746
Fund balance - beginning	1,862,978	-	(1,862,978)
Fund balance - ending	\$ 1,377,778	2,084,546	\$ 706,768
Adjustment to GAAP basis:			
Interest receivable		5,123	
Net position - GAAP basis		\$ 2,089,669	

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, 2019

	2019		
	Original And Final Budget	Actual	Variance with Final Budget
REVENUES:			
Capital project participation	\$ 282,528	\$ -	\$ (282,528)
Interest on investments	40,600	17,446	(23,154)
Miscellaneous	-	13,534	13,534
Contributions from CCSD No. 1	-	1,991,876	1,991,876
	323,128	2,022,856	1,699,728
EXPENDITURES:			
Capital outlay	2,480,000	1,945,225	534,775
Contingency	620,000	-	620,000
	3,100,000	1,945,225	1,154,775
Revenues over (under) expenditures	(2,776,872)	77,631	2,854,503
OTHER FINANCING SOURCES:			
Transfer from other funds:			
Surface Water Operating Fund	1,000,000	1,000,000	-
	(1,776,872)	1,077,631	2,854,503
Net change in fund balance	(1,776,872)	1,077,631	2,854,503
Fund balance - beginning	2,029,522	-	(2,029,522)
Fund balance - ending	\$ 252,650	1,077,631	\$ 824,981
Adjustment to GAAP basis:			
Interest receivable		3,605	
Net position - GAAP basis		\$ 1,081,236	

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
 SUMMARY OF NET POSITION
 BY FUND
 for the year ended June 30, 2019

Fund	Description	Net Position GAAP Basis
631	Sanitary Sewer Operating Fund	\$ 201,354,648
632	Sanitary Sewer System Development Charge Fund	\$ 31,130,884
635	State Loan Debt Service Fund	\$ (5,999,896)
636	Revenue Bond Debt Service Fund	\$ (92,671,913)
639	Sanitary Sewer Construction Fund	\$ 43,945,461
641	Surface Water Operating Fund	\$ 32,915,506
642	Surface Water System Development Charge Fund	\$ 2,089,669
649	Surface Water Construction Fund	\$ 1,081,236
	Total Net Position	\$ 213,845,595

Statistical Section



STATISTICAL SECTION

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

WES was formed on November 16, 2016 with no activity prior to July 1, 2017. As such, data for years prior to 2018 is not available for WES. Reference may be made to the prior fiscal year financial reports for WES' member districts, the Tri-City Service District and Clackamas County Service District No. 1, for comparison with FY 2019 and FY 2018 statistics.

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Ratios of Outstanding Debt by Type
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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
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Source: The information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year, unless otherwise noted.

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

NET POSITION BY COMPONENT
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2018	\$ 35,210,690	\$ 2,971,058	\$ 14,308,920	\$ 52,490,668
2019	109,060,156	34,282,157	70,503,282	213,845,595

Source: WES' Comprehensive Annual Financial Report

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

CHANGES IN NET POSITION
Last Ten Fiscal Years

	2019	2018
Operating revenues:		
Sanitary Sewer user charges	\$ 36,790,480	\$ 8,542,389
Surface Water user charges	4,910,321	185,646
Intergovernmental revenues	-	375,145
Other operating revenues	1,007,099	285,617
Total operating revenues	42,707,900	9,388,797
Operating expenses:		
Contracted salaries and benefits	12,337,188	2,639,533
Professional services	1,181,977	408,852
Laboratory services	31,724	247,851
Other County services	2,897,557	606,616
Supplies	2,904,075	1,488,169
Vehicle expenses	815,631	181,037
Repairs and maintenance	960,286	88,552
Utilities	1,767,914	685,523
Insurance	404,918	163,480
Other expenses	849,742	173,503
Depreciation and amortization	20,082,869	2,571,997
Total operating expenses	44,233,881	9,255,113
Operating income (loss)	(1,525,981)	133,684
Nonoperating revenue (expense):		
Interest income	1,806,268	189,261
Interest expense	(4,896,003)	-
Dispatchable power	69,100	-
Loss on disposal of capital assets	(45,338)	(4,761)
Total nonoperating revenue (expense)	(3,065,973)	184,500
Income (loss) before contributions and special items	(4,591,954)	318,184
Contributions:		
Connection charges	5,346,829	827,629
Capital contributions	5,034,881	145,208
Total contributions	10,381,710	972,837
Special item:		
Gain on transfer of operations	155,565,171	-
Change in net position	\$ 161,354,927	\$ 1,291,021

Source: WES' Comprehensive Annual Financial Report

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

USER FEE REVENUE BY CUSTOMER TYPE
Last Ten Fiscal Years

	2019	2018
Sanitary Sewer user charges		
Cities	\$ 13,801,878	\$ 8,308,939
Residential	11,400,628	196,864
Commercial	3,312,205	28,522
Industrial	884,807	-
Other	7,390,962	8,064
Total Sanitary Sewer user charges	\$ 36,790,480	\$ 8,542,389
 Surface Water user charges		
Residential	\$ 1,713,821	\$ 148,106
Commercial	2,854,696	-
Other	341,804	37,540
Total Surface Water user charges	\$ 4,910,321	\$ 185,646

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

MONTHLY SEWER AND SURFACE WATER RATES
Last Ten Fiscal Years

	2019	2018
Sewer Rates per EDU		
Residential Customers		
Rate Zone 1	\$ 33.25	\$ 32.00
Rate Zone 2	48.15	-
Wholesale Customers		
Rate Zone 1	\$ 23.00	\$ 22.15
Rate Zone 2	36.10	-
Surface Water Rates per ESU		
Rate Zone 2	\$ 6.95	-
Rate Zone 3	4.25	4.10

EDU - Equivalent Dwelling Unit
ESU - Equivalent Service Unit

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

Source: WES Records

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

SYSTEM DEVELOPMENT CHARGES AND REVENUES
Last Ten Fiscal Years

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

EDU - Equivalent Dwelling Unit
ESU - Equivalent Service Unit

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

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

Source: WES Records

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

PRINCIPAL RATEPAYERS WITHIN WES ⁽¹⁾
Last Ten Fiscal Years

Customer	Fiscal Year		Fiscal Year	
	2019		2018	
	Revenue	Rank	Revenue	Rank
City of Milwaukie	\$ 4,912,993	1		
City of Oregon City	4,621,023	2	\$ 4,313,782	1
City of West Linn	2,945,391	3	2,827,032	2
City of Gladstone	1,202,042	4	1,168,125	3
Precision Castparts	556,110	5		
Kaiser Hospital	373,687	6		
Forum Clackamas Campus	277,008	7		
Riverwalk Happy Valley Apartments	232,753	8		
Big Reflections OR LLC	227,029	9		
Crown Court Apartments	205,638	10		
The Woods Apartments	198,305	11		
Clackamas Town Center	174,380	12		
The Overlook at Causey Lane	171,476	13		
Clackamas Trails Apartments	165,341	14		
Easton Ridge Apartments	162,124	15		
Hawksridge Apartments	152,241	16		
Oak Acres Mobile Home Park	145,024	17		
Squire's Court Apartments	143,033	18		
Fred Meyer General Merchandise Office	133,963	19		
Stone Ridge Apartments	124,728	20		
Total	\$ 17,124,289		\$ 8,308,939	

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

Source: WES' Records

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

RATIOS OF OUTSTANDING DEBT BY TYPE
 Last Ten Fiscal Years



Fiscal Year	Revenue Bonds and Obligations	Loans Payable	Total	Percentage of Personal Income	Per Capita
2019	\$ 93,744,647	\$ 10,315,874	\$ 104,060,521	N/A	569
2018	-	-	-	N/A	-

N/A: Not available

Source: WES' records

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

OVERLAPPING GENERAL OBLIGATION BONDED DEBT
June 30, 2019

Governmental Unit	Debt Outstanding	Percent Overlapping	Overlapping General Obligation Bonded Debt
Debt repaid with property taxes			
City of Oregon City	\$ 14,125,000	99.68 %	\$ 14,079,800
City of West Linn	32,435,000	99.97	32,425,270
Clackamas Community College	93,763,913	20.55	19,268,484
Clackamas County	129,945,000	15.17	19,712,657
Clackamas County Rural Fire Protection District #1	29,447,277	99.76	29,376,604
Clackamas County School District #115 (Gladstone)	39,401,716	71.32	28,101,304
Clackamas County School District #12 (North Clackamas)	694,062,196	0.26	1,804,562
Clackamas County School District #3J (West Linn/Wilsonville)	209,850,109	44.71	93,823,984
Clackamas County School District #46 (Oregon Trail)	87,695,487	100.00	87,695,487
Clackamas County School District #62 (Oregon City)	212,093,894	59.22	125,602,004
Clackamas County School District #7J (Lake Oswego)	249,044,136	0.33	821,846
Metro	819,020,000	3.60	29,484,720
Mt Hood Community College	20,660,000	15.79	3,262,214
Multnomah County School District #28J (Centennial)	17,677,677	7.76	1,371,788
Portland Community College	602,297,900	0.02	120,460
Tualatin Valley Fire & Rescue District	26,055,000	5.40	1,406,970
Other Debt			
City of Gladstone	4,170,000	72.96	3,042,432
City of Oregon City	16,740,098	99.68	16,686,530
Clackamas Community College	24,110,000	20.55	4,954,605
Clackamas County Education Service District	20,970,000	15.91	3,336,327
Clackamas County Rural Fire Protection District #1	15,020,000	14.85	2,230,470
Clackamas County School District #12 (North Clackamas)	2,417,414	0.26	6,285
Clackamas County School District #62 (Oregon City)	316,294	59.22	187,309
Metro	16,985,000	3.60	611,460
Mt. Hood Community College	33,159,068	15.79	5,235,817
Multnomah County Education Service District	26,825,000	1.41	378,233
North Clackamas Parks & Recreation District	3,640,000	99.82	3,633,448
Port of Portland	58,452,781	3.32	1,940,632
Portland Community College	76,195,000	0.02	15,239
Tualatin Valley Fire & Rescue District	12,070,000	5.40	651,780
Total overlapping debt	\$ 3,588,644,960		\$ 531,268,721

Note:

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

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

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

PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years

	2018-19
Gross Revenues	
Monthly Service Charges	\$ 27,898,923
Operating Payment from Cities	13,801,878
Interest Earnings	1,806,268
Miscellaneous Income	1,007,099
Capital Charge Revenues	298,389
System Development Charges	4,888,525
Other Connection Charges	159,915
Total Gross Revenues	\$ 49,860,997
Operating Expenses	
Operation, Maintenance & Replacements	24,151,012
Total Operating Expenses	24,151,012
Net Operating Revenues	\$ 25,709,985
Revenue Bond Debt Service	
Series 2009A	1,228,150
Series 2009B	1,502,100
Series 2010	887,500
Series 2016	3,256,231
Total Revenue Bond Debt Service	\$ 6,873,981
Revenue Bonds Debt Service Coverage	3.7
Revenue Bonds Coverage without SDC's	3.0
Revenues Available for	
State Revolving Fund Loans	\$ 18,836,004
State Revolving Fund Loan Debt Service	
R06224	106,208
R95030	-
Total State Revolving Loan Debt Service	\$ 106,208
Revenues Available for Other Purposes	\$ 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)
2018	80,045	N/A	N/A	3.7 %
2019	182,901	N/A	N/A	3.7

N/A: Not available

¹Figures are for calendar year; Personal Income and Per Capita Income for 2018 and 2019 are not available.

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

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

PRINCIPAL EMPLOYERS ⁽¹⁾
Current Year and Nine Years Ago

Employer	2019			2010		
	Employees	Rank	Percentage of Total ⁽²⁾	Employees	Rank	Percentage of Total ⁽²⁾
Intel Corp.	20,000	1	.02 %	15,141	1	.01 %
Providence Health & Services	18,286	2	.01	13,825	2	.01
Oregon Health & Sciences University	16,658	3	.01	12,700	3	.01
Kaiser Permanente	12,400	4	.01	8,759	5	.01
Nike Inc.	12,000	5	.01	7,000	7	.01
Legacy Health	11,250	6	.01	8,251	6	.01
City of Portland	9,710	7	.01	6,900	8	.01
Fred Meyer	7,741	8	.01	9,630	4	.01
Portland Public Schools	7,600	9	.01			
Beaverton School District	5,457	10	.00			
Multnomah County				6,659	9	.01
Wells Fargo Bank				5,010	10	.00
Total	<u>121,102</u>		<u>0.10 %</u>	<u>93,875</u>		<u>0.09 %</u>

Sources:

⁽¹⁾ Statistics are the latest available data published in the Portland Business Journal *Book of Lists 2019*, and *Book of Lists 2010*. 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

	2019	2018
Function		
Business Services	22.6	2.8
Capital Planning and Management	16.4	4.3
Environmental Services	19.6	2.5
Operations	51.4	18.1
Total	110	27.7

In FY 2018, the Department Water Environment Services was responsible for the general management and operation of CCSD No. 1 and WES. Employees when possible, directly charged their time to the appropriate entity. Otherwise, their time is allocated. Hence, employee counts listed above are expressed in full time equivalents devoted to WES' operations.

Source: WES' records

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

OPERATING AND CAPITAL INDICATORS
Last Ten Fiscal Years

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

EDU - Equivalent Dwelling Unit
ESU - Equivalent Service Unit

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

Source: WES' Records

Compliance Reports



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise WES' basic financial statements, and have issued our report thereon dated November 14, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams, LLP

Eugene, Oregon
November 14, 2019

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

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

We have audited the basic financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, as of and for the year ended June 30, 2019, and have issued our report thereon dated November 14, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Oregon Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

Compliance

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

- The use of approved depositories to secure the deposit of public funds.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal year 2019 and 2020.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

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

Internal Control Over Financial Reporting

Management of WES is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered WES' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WES' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of WES' internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Purposes of This Report

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



James C. Lanzarotta, Partner
for Moss Adams LLP
Eugene, Oregon
November 14, 2019

