



**AUDITED FINANCIAL REPORT**  
*For the fiscal year ended June 30, 2013*

# Surface Water Management Agency of Clackamas County

*(A Component Unit of Clackamas County, Oregon)*





SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)

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FINANCIAL STATEMENTS  
For the fiscal years ended June 30, 2013 and 2012

Prepared by:  
WATER ENVIRONMENT SERVICES  
Business and Financial Services

Robert Moon, Accounting Supervisor

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)

GOVERNING BODY UNDER ORS 451.485  
BOARD OF COUNTY COMMISSIONERS  
CLACKAMAS COUNTY, OREGON  
Public Services Building  
2051 Kaen Road  
Oregon City, Oregon 97045

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COMMISSIONERS AS OF JUNE 30, 2013

<u>Name</u>	<u>Term Expires</u>
Jim Ludlow, Chair Public Services Building	December 31, 2016
Jim Bernard, Commissioner Public Services Building	December 31, 2014
Paul Savas, Commissioner Public Services Building	December 31, 2014
Martha Schrader, Commissioner Public Services Building	December 31, 2016
Tootie Smith, Commissioner Public Services Building	December 31, 2016

ADMINISTRATIVE OFFICES

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

DISTRICT ADMINISTRATOR

Steve Wheeler  
2051 Kaen Road  
Oregon City, Oregon 97045

REGISTERED AGENT

Michael S. Kuenzi  
150 Beaver Creek Road  
Oregon City, Oregon 97045

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)

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## REPORT OF INDEPENDENT AUDITORS

Board of County Commissioners of  
Clackamas County, Oregon, as Governing Body of  
Surface Water Management Agency of Clackamas County  
Oregon City, Oregon

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Surface Water Management Agency of Clackamas County (the Agency) as of and for the year ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Agency's 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 Agency'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.

## MOSS ADAMS<sub>LLP</sub>

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2013 and 2012, 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 the Management's Discussion and Analysis on pages 4 through 7 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 opinion on the financial statements that collectively comprise the Agency's basic financial statements. The budgetary comparison schedule on page 18 (collectively, the supplementary information), is 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013 on our consideration of the Agency's 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 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 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 Agency'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 December 4, 2013, on our consideration of the Agency's 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.

A handwritten signature in black ink that reads "James C. Lanzarotta".

James C. Lanzarotta, Partner  
For Moss Adams LLP  
Eugene, Oregon  
December 4, 2013

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2013

As management of Surface Water Management Agency of Clackamas County (the Agency), we offer readers of our basic financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2013. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

**Financial Highlights**

- The assets of the Agency exceeded our current liabilities at the close of the fiscal year by \$292 (net position). Of this amount, \$218 (unrestricted net position) may be used to meet our ongoing obligations of providing surface water management services.
- The Agency's total assets increased to \$304 from \$235 in the last fiscal year and are \$26 higher than two fiscal years ago.
- Total net position increased by \$77 from last fiscal year. Cash was up by \$79 from last fiscal year. Accounts receivable was down by \$8.
- Operating revenues totaled \$188, an increase of \$6. Surface water management charges decreased by \$2 from the prior year. Other operating revenues were up \$8.
- Operating expenses decreased \$111 from the prior year, salaries, professional services, lab services, and other county expenses were all down significantly.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Agency's 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 Supplementary Information, which provides additional detail about the Agency's operations in the form of budgetary comparisons.

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

The Statements of Revenues, Expenses, and Changes in Net Position present information related to increases and decreases in net total assets. 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 the Agency's cash balance during the fiscal year. They are divided into two components: cash from operations of the Agency, and cash from investing activities.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

Fiscal Year Ended June 30, 2013

**Financial Analysis**

The financial operations of the Agency are primarily related to the development and implementation of management plans to improve the quality of the surface waters that drain into the Lower Tualatin River and Oswego Lake Basins.

**Net Position**

(In Thousands of Dollars)

	2013	2012	2011
Current assets	\$ 229	\$ 158	\$ 199
Capital assets, net	75	77	79
Total assets	304	235	278
Current liabilities	11	19	22
Net investment in capital assets	75	77	79
Unrestricted	218	139	177
Total net position, end of period	\$ 293	\$ 216	\$ 256

Total assets increased by \$69. Pooled cash and investments increased by \$79, while accounts receivable decreased by \$8. Interest receivable increased \$30 over 2012. Cash was produced primarily by an increase in operating revenue.

Total operating revenue increased by \$6. Revenues from surface water management charges decreased from the prior fiscal year, down from \$171 last fiscal year to \$169 this fiscal year. Other operating revenue increased by \$8, because of an increase in erosion control permit and plan review fees.

Operating expenses as a whole decreased \$111 or 49.8%. Contracted salaries and benefits decreased \$23. Materials and services decreased \$88 from 2012. This is a decrease of 59.9% from the prior year. Staff efforts were curtailed in 2012-13 in order to conserve Agency resources. In the prior fiscal year, the Agency hired an outside professional firm to do environmental studies. Those studies ended in the past fiscal year. Other county services are allocated expenses from the county for items such as rent, technology services, and county and personnel administration. The current year allocations were lower, in line with the Agency's use of the services.

Nonoperating revenue remained flat since interest income was unchanged at \$1.

Net position increased \$77.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

Fiscal Year Ended June 30, 2013

**Financial Analysis (Continued)**

The following table offers a comparison of revenues, expenses and changes in net position for the years ended June 30, 2013, 2012, and 2011:

**Changes in Net Position**

(In Thousands of Dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Surface water management charges	\$ 169	\$ 171	\$ 169
Other operating revenues	19	11	16
Operating revenues	<u>188</u>	<u>182</u>	<u>185</u>
Contracted salaries and benefits	56	79	82
Materials and services	<u>59</u>	<u>147</u>	<u>130</u>
Operating expenses	<u>112</u>	<u>223</u>	<u>209</u>
Operating income/(loss)	<u>76</u>	<u>(41)</u>	<u>(24)</u>
Nonoperating revenue	<u>1</u>	<u>1</u>	<u>1</u>
Change in net position	<u>\$ 77</u>	<u>\$ (40)</u>	<u>\$ (23)</u>

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

Fiscal Year Ended June 30, 2013

**Capital Assets**

The Agency's capital assets decreased from \$77 in 2012 to \$75 in 2013 as a result of depreciation. Detail information may be found in Note 2 in the Notes to Basic Financial Statements.

**Economic Factors and Next Year's Budget**

The number of customers that the Agency is serving has remained constant over the last two years. There is some annexation by cities in the area, but new construction keeps the customer base constant.

The adopted budget for 2013-14 represents a 24.7% decrease over 2012-13 budgeted expenditures. Decreases in labor and other county services expenses account for the majority of the percentage decrease.

Actual operating expenses for 2012-13 were \$148 under budget. Education and biological monitoring programs were undertaken at much lower levels than budgeted. For more details see the Supplementary Information section.

**Financial Contact**

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

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# Financial Statements



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# Basic Financial Statements





SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)  
STATEMENTS OF NET POSITION  
June 30, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
Current assets:		
Pooled cash and investments	\$ 218,643	\$ 139,548
Accounts receivable	10,161	18,097
Interest receivable	206	176
Prepaid expenses	73	71
Total current assets	229,083	157,892
Capital assets, net	74,628	76,895
TOTAL ASSETS	303,711	234,787
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	10,187	7,986
Due to Clackamas County	1,094	10,934
Total current liabilities	11,281	18,920
<b>NET POSITION</b>		
Net investment in capital assets	74,628	76,895
Unrestricted	217,802	138,972
TOTAL NET POSITION	\$ 292,430	\$ 215,867

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

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
for the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Surface water management charges	\$ 168,847	\$ 170,872
Other operating revenues	18,713	11,017
	<u>187,560</u>	<u>181,889</u>
Operating expenses:		
Contracted salaries and benefits	55,637	78,584
Professional services	9,423	47,019
Laboratory services	8,920	21,980
Other County services	16,906	47,872
Supplies	2,781	5,217
Vehicle expenses	568	781
Repairs and maintenance	16	9
Utilities	340	689
Insurance	756	733
Other expenses	14,509	17,969
Depreciation and amortization	2,267	2,267
	<u>112,123</u>	<u>223,120</u>
Operating income (loss)	75,437	(41,231)
Nonoperating revenue:		
Interest income	1,126	696
Change in net position	76,563	(40,535)
Net position - beginning of year	<u>215,867</u>	<u>256,402</u>
Net position - end of year	<u>\$ 292,430</u>	<u>\$ 215,867</u>

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

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)  
STATEMENTS OF CASH FLOWS  
for the years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Received from customers	\$ 176,783	\$ 163,874
Payments to suppliers and related entities for goods and services	(117,497)	(223,464)
Other operating revenue	18,713	11,017
Net cash from operating activities	77,999	(48,573)
Cash flows from investing activities:		
Interest received	1,096	709
Net increase (decrease) in pooled cash and investments	79,095	(47,864)
Pooled cash and investments, beginning of year	139,548	187,412
Pooled cash and investments, end of year	\$ 218,643	\$ 139,548
Reconciliation of operating income (loss) to net cash from operating activities:		
Operating income (loss)	\$ 75,437	\$ (41,231)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation	2,267	2,267
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	7,936	(6,999)
Increase in prepaid expenses	(2)	(71)
Increase in accounts payable	2,201	596
Decrease in due to Clackamas County	(9,840)	(3,135)
Total adjustments	2,562	(7,342)
Net cash from operating activities	\$ 77,999	\$ (48,573)

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

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

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**1. Summary of Significant Accounting Policies:**

The Agency

Surface Water Management Agency of Clackamas County (the Agency) was formed in March 1992 under the provisions of Chapter 451 of the Oregon Revised Statutes. As the result of a court decree, the Oregon Department of Environmental Quality (DEQ) required all municipalities whose surface water flows into the Tualatin River to develop and implement management plans to improve the water quality of the river. Clackamas County was required to provide a dedicated source of funding for surface water management to ensure long-term implementation of the water quality program. Consequently, Surface Water Management Agency of Clackamas County was formed as a service district to serve those unincorporated areas which drain into the lower Tualatin River and the Oswego Lake Basin. The Clackamas County Board of Commissioners is the governing body of the Agency as provided by ORS 451.485. Fiscal and accounting functions are provided by personnel of Water Environment Services, the Department of Transportation and Development, the County Treasurer, and the County's General Service Agency.

The Agency has no potential component units. Since Clackamas County, Oregon is financially accountable for and significantly influences the operations of the Agency and the Clackamas County Board of Commissioners also serves as the Agency's Board, the Agency is included as a blended component unit in the Comprehensive Annual Financial Report of Clackamas County, Oregon for the year ended June 30, 2013.

Basis of Accounting

The Agency's financial statements are prepared on the modified accrual basis of accounting. The Agency has implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments.

The Agency distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets

For financial reporting and operating purposes, management considers the Agency's activities as those of a utility operation. However, for legal compliance, the Agency is required to adopt a budget and make appropriations.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 AND 2012

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**1. Summary of Significant Accounting Policies, Continued:**

Budgets, Continued:

The Agency begins its budgetary process by appointing Budget Committee members in the fall of each year. Budget recommendations are developed by management through early spring, with the Budget Committee approving the budget document in late spring. Public notices of the budget hearing are published prior to the public hearing held in June. The Board of Commissioners adopts the budget and authorizes appropriations no later than June 30.

The ordinance authorizing appropriations for the fund sets the level by which expenditures cannot legally exceed appropriations. Appropriations are made at the principal object level – materials and services, reserve for capital improvement, capital outlay, debt service, transfers, operating contingencies, and other – which are the levels of control established by the resolution. Unexpected additional resources may be added to the budget through the use of a supplemental budget and transfers of appropriation resolutions. Supplemental budgets less than 10% of the fund’s original budget may be adopted by the Board of Commissioners at a regular Board meeting. A supplemental budget greater than 10% of the fund’s original budget requires hearings before the public, publication in newspapers and approval by the Board of Commissioners. Original and supplemental budgets may be modified by the use of appropriation transfers between category levels. Such transfers require approval by the Board of Commissioners. No supplemental budgets or appropriation transfers were made during the year ended June 30, 2013. All annual appropriations lapse at fiscal year end.

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). The Agency considers its pooled cash and investments as a demand deposit account, whereby funds may be deposited or withdrawn without prior notice or penalty. Interest earnings are allocated to the Agency based on the proportion of the Agency’s funds to total Clackamas County Service District No.1 (CCSD No. 1), Tri-City Service District (TCSD), and Agency funds.

Reference should be made to the Clackamas County Comprehensive Annual Financial Reports for the year ended June 30, 2013 for compliance with Oregon Revised Statutes relating to the collateralization of deposits and categorization of investments and disclosures required by GASB.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 AND 2012

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**1. Summary of Significant Accounting Policies, Continued:**

Pooled Cash and Investments, Continued:

The Agency 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, the Agency's deposits may not be returned. The Agency's cash and investments are held by Clackamas County (the County) in a pool that also includes deposits of CCSD No. 1 and TCSD. 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. The Agency believes that the risk of County default is slight and outweighed by the advantages of participation in the County cash and investment pool. 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 Agency 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.

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

Accounts Receivable

An allowance for doubtful accounts is not deemed necessary as uncollectible accounts become a lien on the property. All accounts receivable are due from property owners within the Agency's boundaries.

Capital Assets

Capital assets are stated at cost or estimated fair market value at the time received in the case of donations. Normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life, are not capitalized.

Capital assets are defined by the Agency 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 from lives of five years for equipment to fifty years for collection plant.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 AND 2012

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**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 two components: Net investment in capital assets and unrestricted net assets. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and is 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. At June 30, 2013 and 2012, the Agency had no debt related to capital assets. Unrestricted consists of all other net assets not included in the above category.

Risk Management

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

For workers' compensation, the Agency participates in the County's self-insurance program. All personnel of the Agency are contracted from the County. The Agency is not 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 and short-term disability benefits 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.

Use of Estimates

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

Reclassifications

Certain line items in 2012 financial statements have been reclassified to conform to the 2013 presentation.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 AND 2012

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**1. Summary of Significant Accounting Policies, Continued:**

**Adoption of New GASB Pronouncements**

During the fiscal year ended June 30, 2013, the Agency implemented the following GASB pronouncements:

**GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***

Issued June 2011, this Statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and also requires related disclosures. The requirements of the Statement are effective for financial statements for periods beginning after December 15, 2011.

**Future Adoption of GASB Pronouncements**

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2013:

**GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities***

Issued March 2012, this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**GASB Statement No. 66, *Technical Corrections***

Issued March 2012, the objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

**GASB Statement No. 69, *Government Combinations and Disposals of Government Operations***

Issued January 2013, this Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 AND 2012

**1. Summary of Significant Accounting Policies, Continued:**

**GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees**

Issued April 2013, this Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

The Agency will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The Agency is currently evaluating if the above listed new GASB pronouncements will have a significant financial impact to the Agency or in issuing its financial statements.

**2. Capital Assets:**

Changes in capital assets for the years ended June 30, 2013 and 2012 are as follows:

	2013		
	Balance July 1, 2012	Additions	Balance June 30, 2013
Collection plant	\$ 131,633	\$ -	\$ 131,633
Equipment	10,304	-	10,304
Total	141,937	-	141,937
Accumulated depreciation	(65,042)	(2,267)	(67,309)
Capital assets, net	<u>\$ 76,895</u>	<u>\$ (2,267)</u>	<u>\$ 74,628</u>
	2012		
	Balance July 1, 2011	Additions	Balance June 30, 2012
Collection plant	\$ 131,633	\$ -	\$ 131,633
Equipment	10,304	-	10,304
Total	141,937	-	141,937
Accumulated depreciation	(62,775)	(2,267)	(65,042)
Capital assets, net	<u>\$ 79,162</u>	<u>\$ (2,267)</u>	<u>\$ 76,895</u>

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 AND 2012

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**3. Transactions with Related Parties:**

The Clackamas County Board of Commissioners also serves as the Agency's governing body. In addition, Water Environment Services, Department of Transportation and Development, County Treasurer and Clackamas County Service District No. 1 perform certain fiscal and accounting services for which the Agency was charged \$81,118 and \$148,085 in fiscal 2013 and 2012, respectively. At June 30, 2013 and 2012, the Agency was obligated to Clackamas County for \$1,094 and \$10,934, respectively.

**4. Litigation:**

The Agency 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 the Agency. In the opinion of management, the ultimate disposition of such proceedings is not expected to have a material adverse effect on the Agency.

# Supplementary Information





SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY  
(A Component Unit of Clackamas County, Oregon)  
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
for the year ended June 30, 2013  
(with comparative totals for the year ended June 30, 2012)

	2013		Variance with Final Budget Positive (Negative)	2012 Actual
	Original And Final Budget	Actual		
<b>REVENUES:</b>				
Surface water management charges	\$ 171,976	\$ 168,848	\$ (3,128)	\$ 170,872
Interest earnings	596	1,096	500	696
Miscellaneous income	13,000	18,713	5,713	11,017
Total revenues	<u>185,572</u>	<u>188,657</u>	<u>3,085</u>	<u>182,585</u>
<b>EXPENDITURES:</b>				
Materials and services	258,420	109,855	148,565	220,853
Contingency	25,842	-	25,842	-
Total expenditures	<u>284,262</u>	<u>109,855</u>	<u>174,407</u>	<u>220,853</u>
Revenues over (under) expenditures	<u>(98,690)</u>	<u>78,802</u>	<u>177,492</u>	<u>(38,268)</u>
Net change in fund balance	<u>(98,690)</u>	<u>78,802</u>	<u>177,492</u>	<u>(38,268)</u>
Fund balance - beginning as previously reported	116,057	120,716	4,659	158,983
Restatement *	-	18,079	18,079	-
Fund balance - beginning, as restated	<u>116,057</u>	<u>138,795</u>	<u>22,738</u>	<u>158,983</u>
Fund balance - ending	<u>\$ 17,367</u>	217,597	<u>\$ 200,230</u>	<u>\$ 120,716</u>
<b>Adjustment to GAAP basis:</b>				
Capital assets net of accumulated depreciation		74,628		
Interest receivable		<u>206</u>		
Net position - GAAP basis		<u>\$ 292,431</u>		

\* Beginning Fund Balance was restated to reflect refinement of budgetary basis.

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# Compliance Reports



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**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  
Surface Water Management Agency of Clackamas County  
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 Surface Water Management Agency of Clackamas County (the Agency) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 4, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's 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 the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

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

## MOSS ADAMS<sub>LLP</sub>

### Compliance and Other Matters

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

### Purpose of this Report

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

*Moss Adams, LLP*

Eugene, Oregon  
December 4, 2013

**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 AUDITING STANDARDS**

Board of County Commissioners of  
Clackamas County, Oregon, as Governing Body of  
Surface Water Management Agency of Clackamas County  
Oregon City, Oregon

We have audited the basic financial statements of Surface Water Management Agency of Clackamas (the Agency), a component unit of Clackamas County, Oregon, as of and for the years ended June 30, 2013, and have issued our report thereon dated December 4, 2013. 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 the Agency's 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 162-10-000 to 162-10-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

<b>OAR</b>	<b>Section</b>	<b>Instances of Non-Compliance Identified?</b>
162-010-0000	Preface	None Noted
162-010-0010	Definitions	None Noted
162-010-0020	Introduction	None Noted
162-010-0030	General Requirements	None Noted
162-010-0050	Financial Statements	None Noted
162-010-0115	Required Supplementary Information (RSI)	None Noted
162-010-0120	Other Supplementary Information	None Noted
162-010-0130	Schedule of Revenues, Expenditures / Expenses, and Changes in Fund Balances, / Net Position, Budget and Actual (Each Fund)	None Noted
162-010-0140	Schedule of Accountability for Independently Elected Officials	Not applicable
162-010-0150	Schedule of Property Tax Transactions or Acreage Assessments	Not applicable
162-010-0160	Schedule of Bonded or Long-Term Debt Transactions	None Noted
162-010-0170	Schedule of Future Requirements for Retirement of Bonded or Long-Term Debt	None Noted
162-010-0190	Other Financial or Statistical Information	None Noted
162-010-0200	Required Disclosures and Independent Auditors Comments	None Noted
162-010-0230	Accounting Records and Internal Control	None Noted
162-010-0240	Public Fund Deposits	None Noted
162-010-0250	Indebtedness	None Noted
162-010-0260	Budget	None Noted
162-010-0270	Insurance and Fidelity Bonds	None Noted
162-010-0280	Programs Funded from Outside Sources	None Noted
162-010-0295	Highway Funds	Not applicable
162-010-0300	Investments	None Noted
162-010-0310	Public Contracts and Purchasing	None Noted
162-010-0315	State School Fund	Not applicable
162-010-0316	Public Charter Schools	Not applicable
162-010-0320	Other Comments and Disclosures	None Noted
162-010-0330	Extensions of Time to Deliver Audit Reports	Not applicable

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.

**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 AUDITING STANDARDS – (continued)**

**Internal Control over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's 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 the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's 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 the entity's 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**

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



James C. Lanzarotta, Partner  
for Moss Adams LLP  
Eugene, Oregon  
December 4, 2013

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