

AUDITED FINANCIAL REPORT

For the fiscal years ended June 30, 2016 and 2015

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)

FINANCIAL STATEMENTS
For the fiscal years ended June 30, 2016 and 2015

Prepared by:
WATER ENVIRONMENT SERVICES
Finance and Administration

Douglas Waugh
Finance and Administration Manager

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

COMMISSIONERS AS OF JUNE 30, 2016

<u>Name</u>	<u>Term Expires</u>
John Ludlow, Chair Public Services Building	December 31, 2016
Jim Bernard, Commissioner Public Services Building	December 31, 2018
Paul Savas, Commissioner Public Services Building	December 31, 2018
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

Donald Krupp
2051 Kaen Road
Oregon City, Oregon 97045

REGISTERED AGENT

Greg Geist
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), a component unit of Clackamas County, Oregon, as of and for the years ended June 30, 2016 and 2015, 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 opinions 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.



REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency as of June 30, 2016, and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 schedules and summary of net position by fund on page 20 (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.



REPORT OF INDEPENDENT AUDITORS (continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016 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 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 November 17, 2016, 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 blue ink that reads "James C. Lanzarotta".

James C. Lanzarotta, Partner
for Moss Adams LLP
Eugene, Oregon
November 17, 2016

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2016

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, 2016. 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 \$564 (net position). Of this amount, \$496 (unrestricted net position) may be used to meet our ongoing obligations of providing surface water management services.
- The Agency's total assets increased to \$568 from \$481 in the last fiscal year and are \$179 higher than two fiscal years ago.
- Total net position increased by \$87 from the last fiscal year. Cash was up by \$91 from the last fiscal year. Accounts receivable was lower by \$3 from the last fiscal year.
- Operating revenues totaled \$191, an increase of \$12. Surface water management charges are equal to the prior fiscal year. Other operating revenues increased by \$12 from the prior fiscal year.
- Operating expenses increased by \$17 from the prior fiscal year. Salaries and other county expenses were the primary increases due to increased levels of service that were provided to the Agency.

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 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 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, 2016

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)

	2016	2015	2014
Current assets	\$ 500	\$ 411	\$ 317
Capital assets, net	68	70	72
Total assets	568	481	389
Current liabilities	4	4	4
Net investment in capital assets	68	70	72
Unrestricted	496	407	313
Total net position, end of period	\$ 564	\$ 477	\$ 385

Total assets increased by \$87. Pooled cash and investments increased by \$91, while accounts receivable decreased by \$3. Interest receivable remained unchanged from 2015. Though operating expenses increased, higher cash reserves resulted from revenues continuing to exceed expenses.

Total operating revenues increased by \$12. Revenues from surface water management charges remained unchanged. Other operating revenues increased by \$12.

Operating expenses as a whole increased \$17 or 19%. Contracted salaries and benefits increased \$17. Materials and services as a whole remained unchanged. Staff efforts increased in the fiscal year to reflect the level of resources available. The Other County services line item contains allocated expenses from the county for items such as rent, technology services, and county and personnel administration. The current year allocations were higher, in line with the Agency's increased use of the services.

Nonoperating revenue remained equal to 2015.

Net position increased \$87.

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, 2016

Financial Analysis (Continued)

The following table offers a comparison of revenues, expenses and changes in net position for the years ended June 30, 2016, 2015, and 2014:

Changes in Net Position

(In Thousands of Dollars)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Surface water management charges	\$ 173	\$ 173	\$ 175
Other operating revenues	<u>18</u>	<u>6</u>	<u>12</u>
Operating revenues	<u>191</u>	<u>179</u>	<u>187</u>
Contracted salaries and benefits	54	37	41
Materials and services	<u>52</u>	<u>52</u>	<u>54</u>
Operating expenses	<u>106</u>	<u>89</u>	<u>95</u>
Operating income	<u>85</u>	<u>90</u>	<u>92</u>
Nonoperating revenue	<u>2</u>	<u>2</u>	<u>1</u>
Change in net position	87	92	93
Net position - beginning of year	<u>477</u>	<u>385</u>	<u>292</u>
Net position - end of year	<u>\$ 564</u>	<u>\$ 477</u>	<u>\$ 385</u>

Capital Assets

The Agency's capital assets decreased from \$70 in 2015 to \$68 in 2016 as a result of depreciation. Detail information may be found in Note 3 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.

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, 2016

Economic Factors and Next Year's Budget (Continued)

The adopted budget for 2016-17 represents a 55.6% increase over 2015-16 budgeted expenditures. Increases in labor and environmental services expenses account for the majority of the increase.

Actual operating expenses for 2015-16 were \$27 under budget. Communications and other County services were undertaken at 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 Finance and Administration Manager at 150 Beavercreek 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/wes.

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Financial Section



Basic Financial Statements



SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Pooled cash and investments	\$ 485,389	\$ 393,616
Accounts receivable	13,506	17,242
Interest receivable	362	430
Prepaid expenses	594	84
Total current assets	499,851	411,372
Capital assets, net	67,826	70,094
TOTAL ASSETS	567,677	481,466
LIABILITIES		
Current Liabilities:		
Accounts payable	1,319	1,946
Due to Clackamas County	2,221	2,391
Total current liabilities	3,540	4,337
NET POSITION		
Net investment in capital assets	67,826	70,094
Unrestricted	496,311	407,035
TOTAL NET POSITION	\$ 564,137	\$ 477,129

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, 2016 and 2015

	2016	2015
Operating revenues:		
Surface water management charges	\$ 172,894	\$ 172,847
Other operating revenues	18,370	6,501
Total operating revenues	191,264	179,348
Operating expenses:		
Contracted salaries and benefits	53,923	37,391
Professional services	9,863	8,034
Laboratory services	8,098	19,269
Other County services	17,364	11,668
Supplies	2,770	428
Vehicle expenses	427	1,730
Repairs and maintenance	33	30
Utilities	223	196
Insurance	1,321	276
Other expenses	9,577	8,082
Depreciation and amortization	2,268	2,267
Total operating expenses	105,867	89,371
Operating income	85,397	89,977
Nonoperating revenue		
Interest income	1,611	2,209
Change in net position	87,008	92,186
Net position - beginning of year	477,129	384,943
Net position - end of year	\$ 564,137	\$ 477,129

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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Received from customers	\$ 176,630	\$ 171,508
Payments to suppliers and related entities for goods and services	(104,906)	(86,283)
Other operating revenue	18,370	6,501
Net cash from operating activities	90,094	91,726
Cash flows from investing activities:		
Interest received	1,679	1,978
Net increase in pooled cash and investments	91,773	93,704
Pooled cash and investments, beginning of year	393,616	299,912
Pooled cash and investments, end of year	\$ 485,389	\$ 393,616
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 85,397	\$ 89,977
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	2,268	2,267
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	3,736	(1,339)
Decrease (increase) in prepaid expenses	(510)	898
Increase (decrease) in accounts payable	(627)	1,082
Decrease in due to Clackamas County	(170)	(1,159)
Total adjustments	4,697	1,749
Net cash from operating activities	\$ 90,094	\$ 91,726

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, 2016 AND 2015

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, 2016.

Measurement Focus

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 present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

Basis of Accounting

The Agency's 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. The Agency maintains one individual fund for state legal compliance which is reported as a unitary enterprise similar to a commercial entity organized for profit for financial reporting.

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.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2016 AND 2015

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 the Agency's pooled cash and investments, held by the Clackamas County Treasurer, has been disclosed in the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. For purposes of the Statements 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 State of Oregon Treasurer's Local Government Investment Pool 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.

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 at estimated fair market 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 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, 2016 AND 2015

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 position. 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, 2016 and 2015, the Agency had no debt related to capital assets. Unrestricted consists of all other net position not included in the above category.

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.

Adoption of New GASB Pronouncements

During the fiscal year ended June 30, 2016, the Agency implemented the following GASB pronouncements:

GASB Statement No. 72, *Fair Value Measurement and Application*, Issued February 2015, this statement establishes a framework for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. See Note 2 for additional information.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, Issued June 2015, this statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This new standard is intended to improve the usefulness of financial statement information for making decisions and enhance the comparability of financial statement information among governments.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2016 AND 2015

1. Summary of Significant Accounting Policies, Continued:

Future Adoption of GASB Pronouncements

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2016:

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, Issued June 2015

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, Issued June 2015

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, Issued June 2015

GASB Statement No. 77, Tax Abatement Disclosures, Issued August 2015

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, Issued December 2015

GASB Statement No. 79, Certain External Investment Pools and Pool Participants, Issued December 2015

GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14, Issued January 2016

GASB Statement No. 81, Irrevocable Split-Interest Agreements, Issued March 2016

GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73, Issued March 2016

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 new GASB pronouncements will have a significant financial impact to the Agency or in issuing its financial statements.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2016 AND 2015

2. Pooled Cash and Investments:

Pooled cash and investments are held by the County Treasurer and represent the Agency's 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).

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.

State statutes authorize the Agency 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, 2016 Comprehensive Annual Financial Report of Clackamas County for compliance with these statutes.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2016 AND 2015

2. Pooled Cash and Investments, Continued:

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 the Agency's value in the pool shares.

Custodial Credit Risk

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.

The Agency 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

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.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2016 AND 2015

2. Pooled Cash and Investments, Continued:

Credit Risk, Continued:

The Agency 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+.

3. Capital Assets:

Changes in capital assets for the years ended June 30, 2016 and 2015 are as follows:

	2016		
	Balance July 1, 2015	Additions	Balance June 30, 2016
Collection plant	\$ 131,633	\$ -	\$ 131,633
Equipment	10,304	-	10,304
Total	141,937	-	141,937
Accumulated depreciation	(71,843)	(2,268)	(74,111)
Capital assets, net	<u>\$ 70,094</u>	<u>\$ (2,268)</u>	<u>\$ 67,826</u>
	2015		
	Balance July 1, 2014	Additions	Balance June 30, 2015
Collection plant	\$ 131,633	\$ -	\$ 131,633
Equipment	10,304	-	10,304
Total	141,937	-	141,937
Accumulated depreciation	(69,576)	(2,267)	(71,843)
Capital assets, net	<u>\$ 72,361</u>	<u>\$ (2,267)</u>	<u>\$ 70,094</u>

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2016 AND 2015

4. Related Party Transactions:

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 \$78,965 and \$67,442 in fiscal 2016 and 2015, respectively. At June 30, 2016 and 2015, the Agency was obligated to Clackamas County for \$2,221 and \$2,391 respectively.

5. Stewardship, Compliance, and Accountability:

Budgets

The Agency is required by state law to budget its operations on a fund basis. The budget is generally prepared on the modified accrual basis of accounting. The resolution authorizing appropriations for the Agency's funds 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, contingency and other – which are the levels of control established by the resolution. The detail budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories. Management may make transfers of appropriations within object levels. However, transfers of appropriations among object levels require approval by the Board.

Unexpected additional resources may be added to the budget through the use of a supplemental budget. The Board, at a regular Board meeting, may adopt a supplemental budget less than 10% of the fund's original budget. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publications in newspapers and approval by the Board. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control and require approval by the Board. No supplemental budgets or appropriation transfers were made during the year ended June 30, 2016. All annual appropriations lapse at fiscal year end.

6. Commitments:

The Agency is committed under contractual agreements for various multi-year contracts related to service agreements. The total contract costs are approximately \$2,800. As of June 30, 2016, approximately \$2,400 of these contracts remain outstanding.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2016 AND 2015

7. 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.

8. Risk Management

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

An IGA between the Agency and the County clarifies that for workers' compensation and employment practice liability issues, the Agency participates in Clackamas County's risk management pool. All employees of the Agency are contracted from the County. 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. There have been no significant reductions in insurance coverage from the prior year for any category of risk, and settled claims have not reached the level of commercial coverage in any of the past three fiscal years.

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, 2016
(with comparative totals for the year ended June 30, 2015)

	2016			
	Original And Final Budget	Actual	Variance with Final Budget	2015 Actual
REVENUES:				
Surface water management charges	\$ 173,904	\$ 172,894	\$ (1,010)	\$ 172,847
Interest earnings	1,922	1,679	(243)	1,977
Miscellaneous income	15,000	18,370	3,370	6,501
Total revenues	190,826	192,943	2,117	181,325
EXPENDITURES:				
Materials and services	130,439	103,599	26,840	87,104
Contingency	13,044	-	13,044	-
Total expenditures	143,483	103,599	39,884	87,104
Revenues over (under) expenditures	47,343	89,344	42,001	94,221
Net change in fund balance	47,343	89,344	42,001	94,221
Fund balance - beginning	384,408	406,605	22,197	312,384
Fund balance - ending	\$ 431,751	495,949	\$ 64,198	\$ 406,605
Adjustment to GAAP basis:				
Capital assets (net of accumulated depreciation)		67,826		
Interest receivable		362		
Net position - GAAP basis		\$ 564,137		

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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), a component unit of Clackamas County, Oregon as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 17, 2016.

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 LLP

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 (continued)

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.



Eugene, Oregon
November 17, 2016

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 year ended June 30, 2016, and have issued our report thereon dated November 17, 2016. 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:

OAR	Section	Instances of Non-Compliance Identified?
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

MOSS ADAMS LLP**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)**

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 the Agency 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
November 17, 2016

