



**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

*For the fiscal year ended June 30, 2013*

# Tri-City Service District

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





TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

---

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the fiscal years ended June 30, 2013 and 2012

Prepared by:  
WATER ENVIRONMENT SERVICES  
Business and Financial Services

Robert Moon, Accounting Supervisor

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

TABLE OF CONTENTS

---

	<u>Page</u>
INTRODUCTORY SECTION:	
Board of County Commissioners	i
Organizational Chart	ii
Letter of Transmittal	iii
Certificate of Achievement for Excellence in Financial Reporting	vii
FINANCIAL SECTION:	
Report of Independent Auditors	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statements of Net Position	12
Statements of Revenues, Expenses, and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Basic Financial Statements	15
Supplementary Information:	
Description of Budgetary Funds	28
Schedules of Revenues and Expenditures - Budget and Actual	
General Fund	29
System Development Charge Fund	30
State Revolving Loan Debt Service Fund Construction Fund	31
Construction Fund	32
Summary of Net Position by Fund	33
STATISTICAL SECTION:	
Financial Trends:	
Net Postion by Component - Last Ten Fiscal Years	34
Changes in Net Position - Last Ten Fiscal Years	35
Revenue Capacity:	
Monthly Sewerage Rate and Sewerage Charges Revenue by Type of Customer - Last Ten Fiscal Years	36
Principal Ratepayers Within District <sup>(1)</sup> - Last Ten Fiscal Years	37

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

TABLE OF CONTENTS, Continued:

---

	<u>Page</u>
STATISTICAL SECTION, Continued:	
Debt Capacity:	
Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	38
Overlapping General Obligation Bonded Debt - June 30, 2013	39
Demographic and Economic Information:	
Demographic and Economic Statistics - Last Ten Fiscal Years	40
Principal Employers - Current Year and Nine Years Ago	41
Full-Time Equivalent Employees by Function - Last Ten Fiscal Years	42
Operating Information:	
Operating Indicators by Function - Last Ten Fiscal Years	43
Capital Asset Statistics by Function - Last Ten Fiscal Years	44
COMPLIANCE REPORTS:	
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45
Report of Independent Auditors on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Oregon Auditing Standards</i>	47

(This page intentionally left blank.)

# Introductory Statements





TRI-CITY SERVICE DISTRICT  
(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, 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

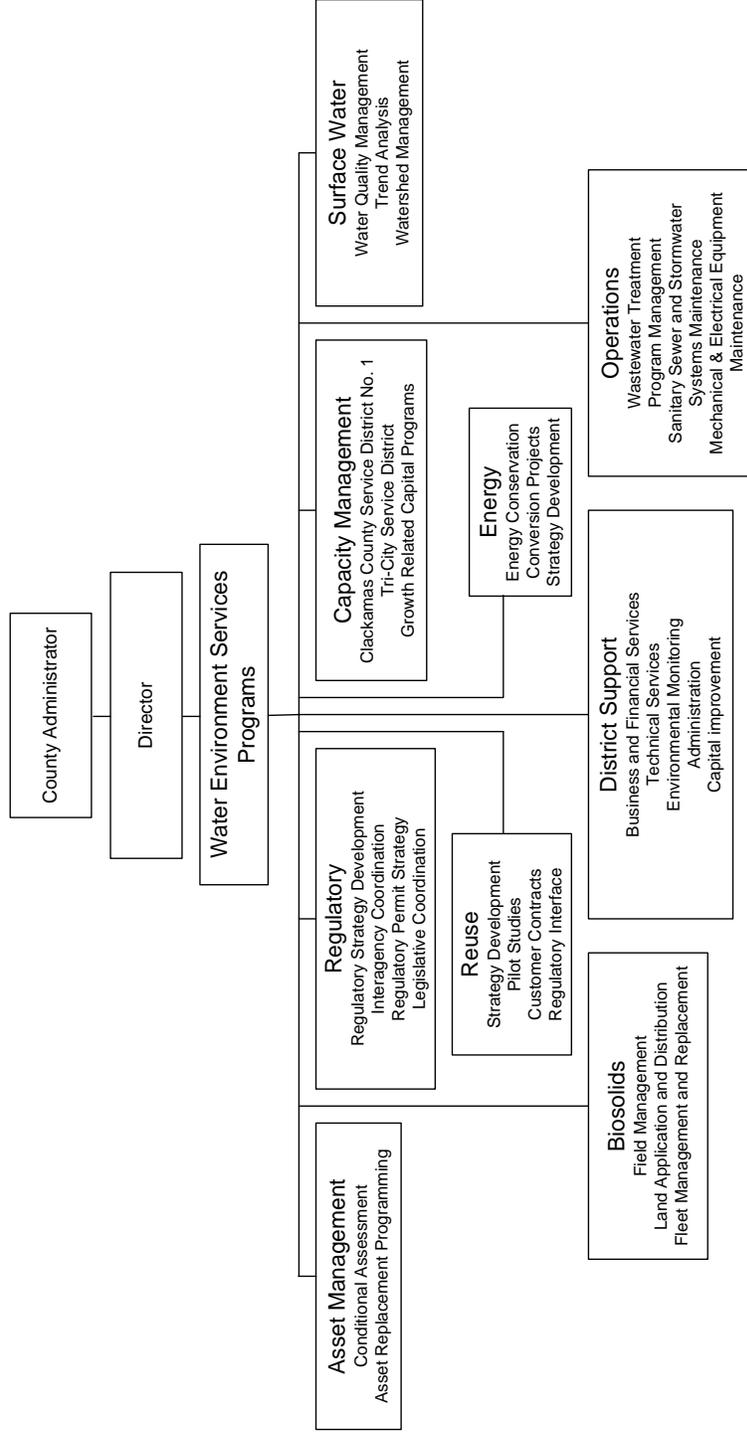
DISTRICT ADMINISTRATOR

Steve Wheeler  
2051 Kaen Road  
Oregon City, Oregon 97045

REGISTERED AGENT

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

Water Environment Services  
 A Department of Clackamas County  
 2012/2013





Water Quality Protection  
Surface Water Management  
Wastewater Collection & Treatment

Michael S. Kuenzi, P.E.  
Director

December 4, 2013

Board of County Commissioners of Clackamas  
County, Oregon, as the Governing Body of  
Tri-City Service District  
Oregon City, Oregon

The Comprehensive Annual Financial Report for the Tri-City Service District (the District) (a Component Unit of Clackamas County, Oregon) for the year ended June 30, 2013, is submitted herewith. This report was prepared by the Financial Services Section of Water Environment Services, a Department of Clackamas County (the Department), which administers the Tri-City Service District, in accordance with the financial reporting provisions of Oregon Revised Statutes Sections 297.405 through 297.555. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentations, including all disclosures, rests with the Department. We believe the data is accurate and complete in all material respects; that it is presented in a manner designed to present fairly the financial position, results of operations and cash flows of the District at June 30, 2013, and for the year then ended.

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

Board of County Commissioners of Clackamas  
County, Oregon, as the Governing Body of  
Tri-City Service District  
Oregon City, Oregon

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

### Water Environment Services

The Department was created in August 1984 to administer County service districts formed within Clackamas County, Oregon under the provisions of ORS Chapter 451. This enabling legislation establishes County service districts as independent municipal corporations authorized to provide a specific service within specified boundaries in the County. At present, the Department administers the Tri-City Service District, Clackamas County Service District No. 1 (sewer and surface water management), and the Surface Water Management Agency of Clackamas County. Since each of these is a separate municipal corporation, audited financial statements are prepared for each entity.

As specified by ORS 451, the governing body for each of these municipal corporations is the Board of County Commissioners of Clackamas County, Oregon, and the County Administrator serves as the Administrator for each of the Districts. As separate municipal corporations, the operations of each are maintained separately from those of the County. However, under the criteria of the Governmental Accounting Standards Board, each entity is considered a component unit of Clackamas County, Oregon.

### Tri-City Service District

Voters formed the Tri-City Service District in 1980 to provide wastewater transmission and treatment services. The District's facilities convey wastewater from the cities of Oregon City, West Linn and a portion of Gladstone to the Tri-City Water Pollution Control Plant. The plant has a permitted dry weather average flow capacity of 8.4 million gallons per day (MGD).

To assist the District in its operation, the Board of County Commissioners established a four-person advisory committee in 1990, which is made up of the City Manager or Administrator (or their designee) of each city and the Director of the Department. The Committee advises the Department on decisions regarding capital improvement

Board of County Commissioners of Clackamas  
County, Oregon, as the Governing Body of  
Tri-City Service District  
Oregon City, Oregon

programs, annual budgets, financial planning, and long-term financing plans. Since 1998, the Tri-City facility has also provided growth-related capacity for Clackamas County Service District No. 1 (CCSD No. 1).

### Prospects for the Future

It is anticipated that customer growth in the District will be moderate during the next several years. The three cities comprising the District are near build out with new customers coming primarily from infill within existing city limits and from growth within the urban growth boundaries, associated with the expansion of Oregon City.

In 2011 and 2012 the District finished expansion of a significant portion of the Tri-City Water Pollution Control Plant (TCWPCP) to add capacity, which will serve the needs of CCSD No. 1 for the next several years. Most of these additions are CCSD No. 1 assets situated at the TCWPCP in accordance with an IGA between the District and CCSD No.1. Additional expansion to address wet weather and solids limitations at the Tri-City plant is anticipated between 2016 and 2030.

In July of 2012 the District and CCSD No.1 purchased the former Blue Heron property in West Linn, Oregon. CCSD No. 1 and the District's primary interest is in securing the existing Blue Heron outfall and associated permit. This permit will address anticipated changes in the regulatory environment on the Willamette River. The permit and outfall structure was purchased in conjunction with the property. At present the site is not being used. A remedial investigation and feasibility analysis to deal with site contamination from historical operations at the site is underway.

### Independent Audit

The provisions of Oregon Revised Statutes Sections 297.405 through 297.555, known as "Municipal Audit Law" require that an independent audit of the District's records be made within six months following the close of the fiscal year. The auditors, whose selection was approved by the Board of County Commissioners at the recommendation

Board of County Commissioners of Clackamas  
County, Oregon, as the Governing Body of  
Tri-City Service District  
Oregon City, Oregon

of District management, have completed their audit of the District's financial statements and have included their report in the Financial Section of this report.

#### GFOA Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its Comprehensive Annual Financial Report for the year ended June 30, 2012. In order to be awarded a Certificate of Achievement, the District publishes an easily readable and efficiently organized Comprehensive Annual Financial Report that conforms to program standards. The report satisfies both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe we have again met the GFOA's standards for financial reporting for the year ended June 30, 2013, and therefore, the District will be submitting its current Comprehensive Annual Financial Report to that body for consideration for a Certificate of Achievement. To that end, we will advise the Board of the results of the GFOA's review of our report.

#### Acknowledgments

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

Respectfully submitted,



Michael Kuenzi, P.E.  
Director



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Tri-City Service District  
Oregon**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

(This page intentionally left blank.)

# Financial Statements



TM



## REPORT OF INDEPENDENT AUDITORS

Board of County Commissioners of  
Clackamas County, Oregon, as Governing Body of  
Tri-City Service District  
Oregon City Oregon

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

We have audited the accompanying financial statements of Tri-City Service District (the District), a component unit of Clackamas County, Oregon, as of and for the year ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District'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 District'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 respective financial position of the District 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 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedules on pages 28 to 33 (collectively, the supplementary information), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

#### *Other Information*

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

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

**MOSS ADAMS<sub>LLP</sub>****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 District'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 District'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 District'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.



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

**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2013**

As management of the Tri-City Service District (the District), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2013, 2012 and 2011. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

**Financial Highlights**

- Assets of the District exceeded our liabilities at the close of the fiscal year by \$51,895. Of this amount, \$7,863 (unrestricted net position) may be used to meet our ongoing obligations of providing wholesale sanitary sewage treatment services.
- The District's total assets decreased by \$874 in fiscal year 2013 primarily due to a decrease in noncurrent assets, specifically a reduction of \$1,912 in plant and equipment. This decrease was offset by an increase of \$982 in land.
- Operating revenues were up \$1,443. Sewer charges from the cities were up \$794 and payments from Clackamas County Service District No. 1 (CCSD No. 1) under an Intergovernmental Agreement (IGA) for the dewatering of Biosolids was up \$465.
- Operating expense increased by \$460. The primary contributing factors were increases in depreciation, supplies, and labor expenses.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District'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 other Supplementary Information, which provides additional detail about the District's operations.

The Statements of Net Position present information on all of the District's assets, liabilities, and net position. Over time, changes in assets, liabilities, and net position may serve as a useful indicator of whether the District'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 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 District's cash balance during the fiscal year. They are divided into three components: cash provided from operations of the District, cash used in the payment of debt and the acquisition of capital assets, and cash from investing activities.

**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2013**

**Overview of the Financial Statements (Continued)**

The basic financial statements contain information relating to the District's operations and can be found on pages 12 through 14 of this report. These operations are centered in the Tri-City Water Pollution Control Plant located in Oregon City, Oregon.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide statements. The Notes to the Basic Financial Statements can be found on pages 15 through 27 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information concerning the District's budgetary comparisons, beginning on page 28.

**Financial Analysis**

The financial operations of the District are primarily related to the wholesale transmission and treatment of sanitary sewage.

**Net Position**

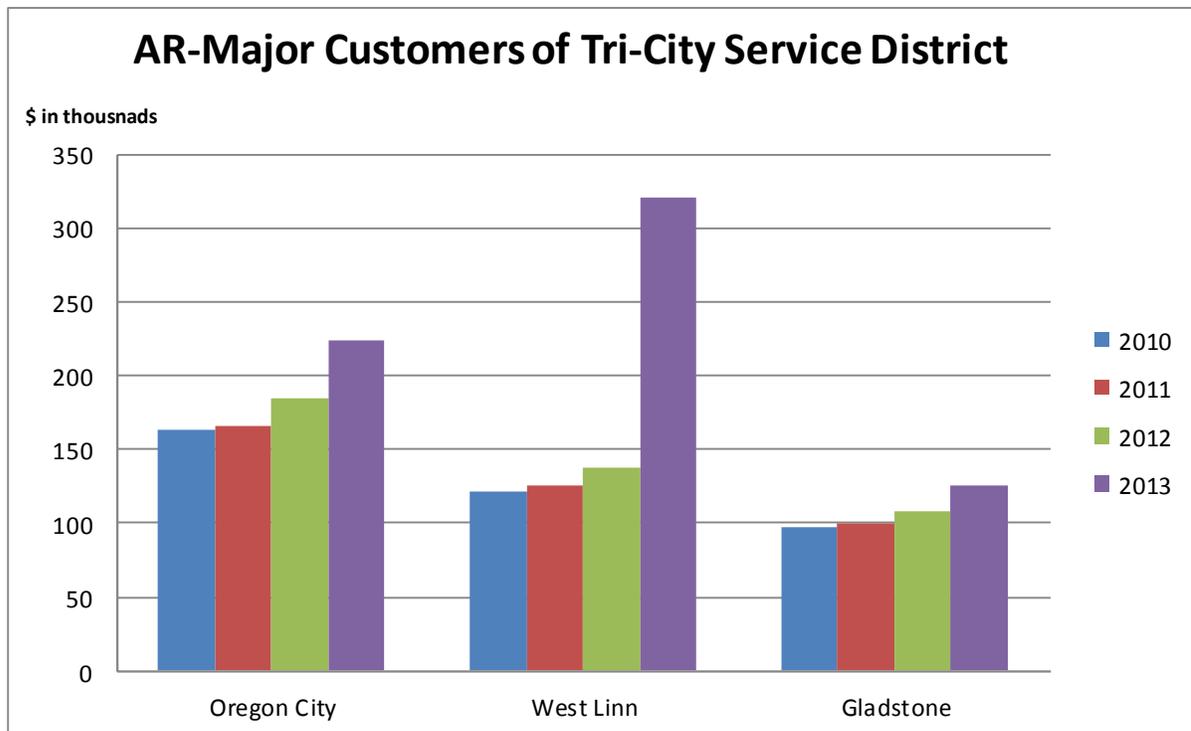
(In Thousands of Dollars)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 8,475	\$ 8,457	\$ 11,363
Non-current assets - restricted	825	780	548
Capital assets, net	<u>43,363</u>	<u>44,300</u>	<u>44,236</u>
 Total assets	 <u>52,663</u>	 <u>53,537</u>	 <u>56,147</u>
 Current liabilities	 661	 388	 819
Long term liabilities	<u>107</u>	<u>157</u>	<u>205</u>
 Total liabilities	 <u>768</u>	 <u>545</u>	 <u>1,024</u>
 Net investment in capital assets	 43,207	 44,095	 43,985
Restricted for capital projects	770	724	492
Restricted for debt service	55	55	55
Unrestricted	<u>7,863</u>	<u>8,118</u>	<u>10,591</u>
 Total net position, end of period	 <u>\$ 51,895</u>	 <u>\$ 52,992</u>	 <u>\$ 55,123</u>

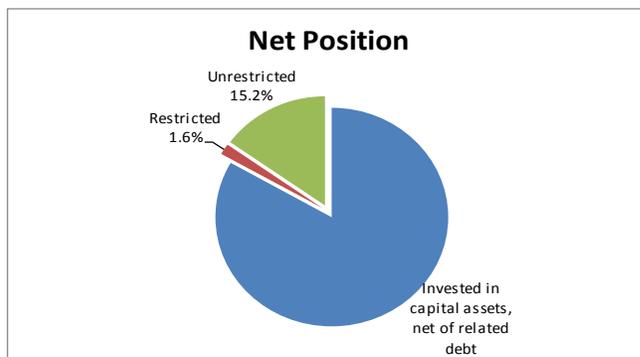
**TRI-CITY SERVICE DISTRICT**  
 (A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2013**

**Financial Analysis (Continued)**

Current assets were almost unchanged. Pooled cash and investments were down \$216 and accounts receivable increased by \$202. Accounts receivable (AR) for the three cities, which comprise the District, has risen slightly over the last three years. This is in line with rates of \$12.35, \$13.35, and \$15.35 per Equivalent Dwelling Unit (EDU) for 2011, 2012, and 2013, respectively. West Linn's accounts receivable is unusually large, because they owed two months of sewer bills on June 30, 2013, while in prior years they only owed one month.



Net Position decreased by \$1,098. Capital assets decreased by \$937. The Blue



Heron land acquisition increased assets by \$1,000, but this addition was offset by depreciation expense and asset retirements. In 2013 the District acquired the Blue Heron Paper Company West Linn facility. The project includes the purchase, remediation and restoration of the site. The industrial wastewater treatment lagoon and outfall to the

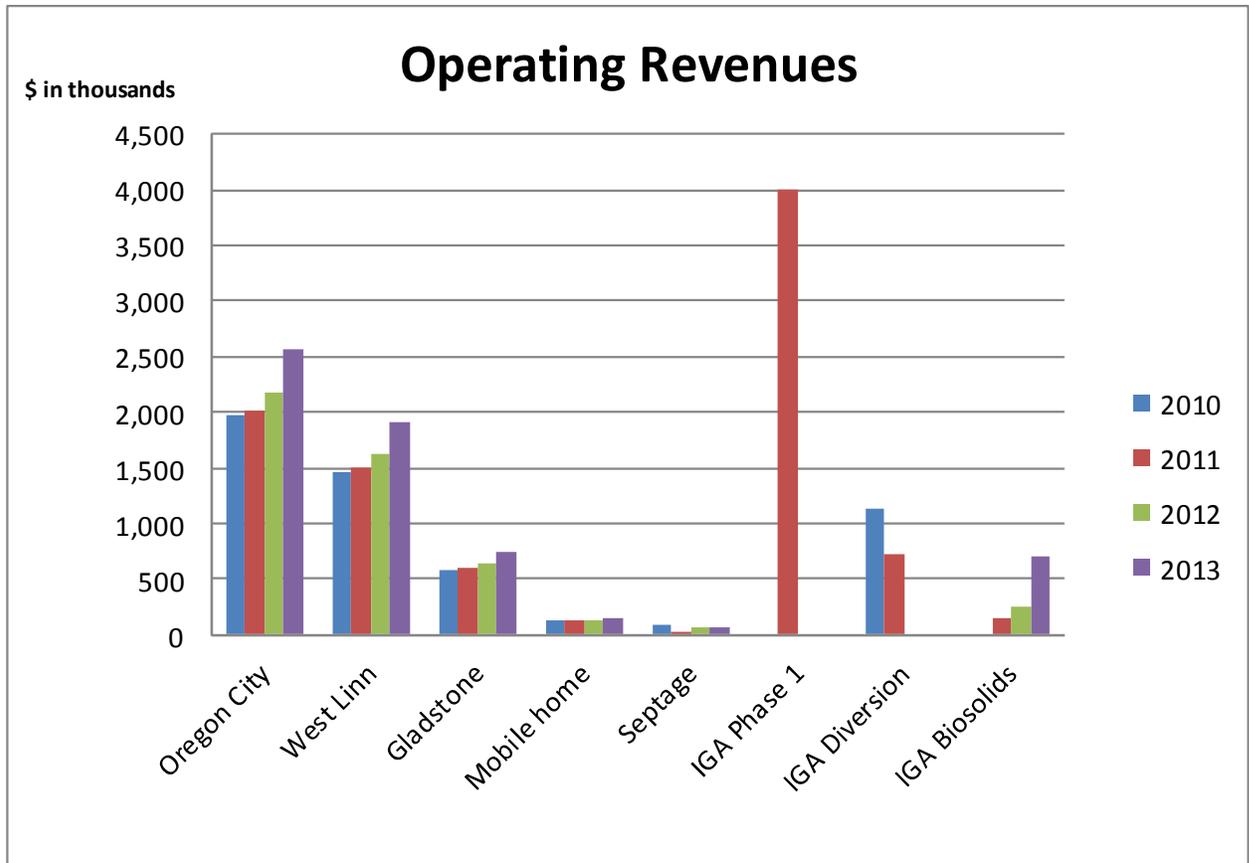
**TRI-CITY SERVICE DISTRICT**  
 (A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2013**

**Financial Analysis (Continued)**

Willamette River provides the District with additional capacity for growth and economic development while maintaining the ability to meet regulatory requirements.

The majority of net position items are capital assets, represented by treatment facilities, land, conveyance systems, buildings, office equipment and vehicles. Restricted assets relate to the state loan and system development charges. Unrestricted assets account for 15.2% of net position. These items have no external restriction concerning their use or function.

Total operating revenue increased by \$1,443 an increase of 29.3%. This follows a decrease from \$8,718 in fiscal year 2011 to \$4,917 in fiscal year 2012 or a decrease of 43.6%. In fiscal year 2013 sewer charges increased by \$794 or 17.3%. IGA revenue increased by \$465. This relates to the payment by CCSD No. 1 to the District for dewatering of biosolids at the Tri-Cities plant. In 2013 the centrifuge was in operation for the entire year, while in 2012 the centrifuge began operations in February. See Note 6 to the financial statements for further information.



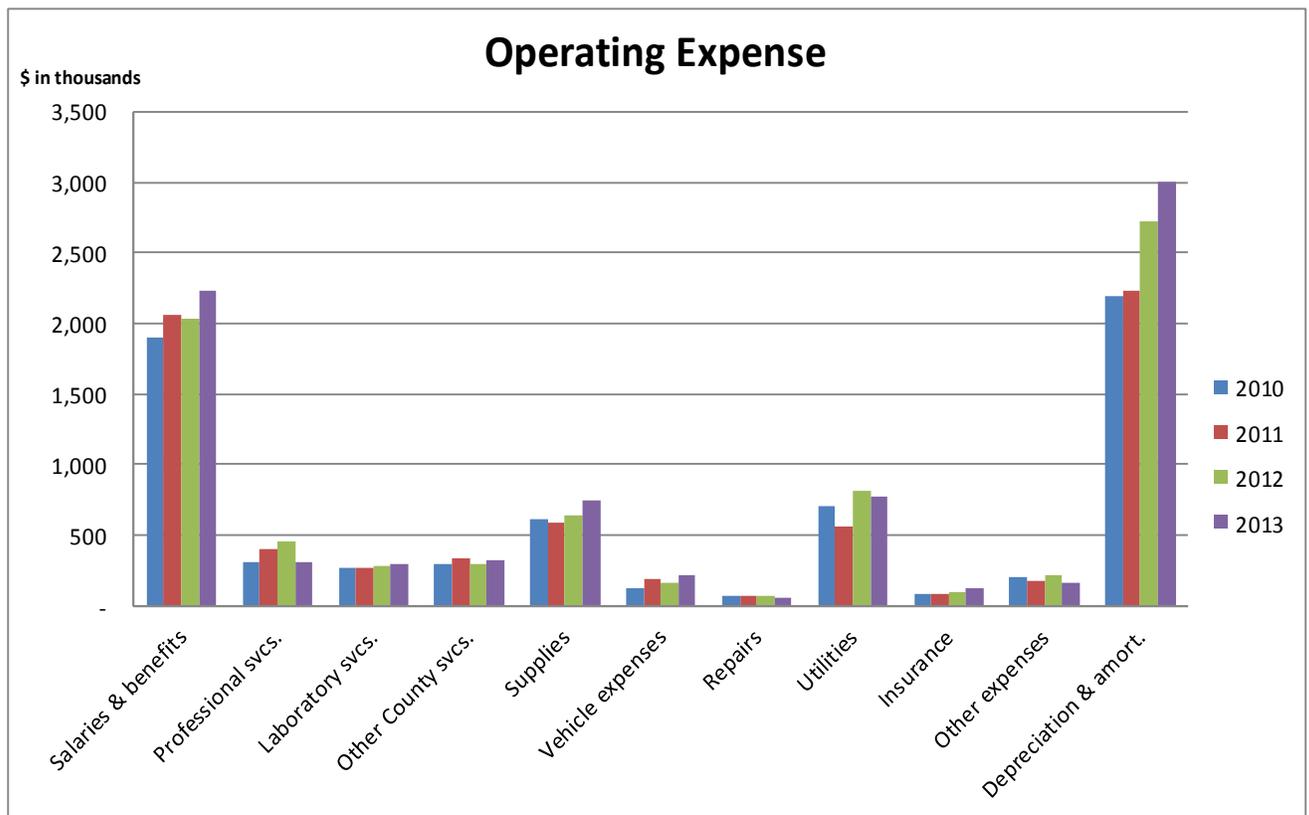
**TRI-CITY SERVICE DISTRICT**  
 (A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2013**

**Financial Analysis (Continued)**

Sewerage charges increased in 2013 primarily due to a rate increase. Sewer rates increased in fiscal year 2013, from \$13.35 per EDU in 2012 to \$15.35 per EDU in 2013, an increase of 15.0%. In the graph below, sewerage charges are reflected in the revenue from the cities and mobile home parks; Intergovernmental revenue is represented by the IGAs; and Septage is a part of Other operating revenue.

Intergovernmental revenues have three components, diversion charges, a one-time payment from CCSD No. 1, and an IGA to treat biosolids. Diversion charge revenues from CCSD No. 1 have been zero in 2012 and 2013. The IGA ended in fiscal year 2011. Second, CCSD No. 1 made a \$4,000 payment to the District in 2011 for the use of existing infrastructure at the Tri-City Treatment Plant as required by the IGA. Third, the District constructed a back up centrifuge at Tri-City, in order to dewater biosolids. CCSD No. 1 has agreed to pay the District a per gallon rate to have their biosolids dewatered. In 2013 CCSD No. 1 paid the District \$712. See Note 6 to the financial statements for further information.

Total operating expenses in fiscal year 2013 increased by \$460 or 6.0%. Salary costs increased by \$194 or 9.6%. Health care costs increased. Supplies increased



**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2013**

**Financial Analysis (Continued)**

by \$107, due to an increase in chemical costs and the cost of miscellaneous equipment and tools. Depreciation expense increased this year by \$275. In 2013 there was a full year of depreciation on the Backup Centrifuge (BUC) assets.

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)

	2013	2012	2011
Sewerage charges	\$ 5,392	\$ 4,598	\$ 4,262
Other operating revenues	968	319	4,456
Operating revenues	<u>6,360</u>	<u>4,917</u>	<u>8,718</u>
Contracted salaries and benefits	2,227	2,033	2,056
Material and services	5,998	5,732	4,873
Operating expenses	<u>8,225</u>	<u>7,765</u>	<u>6,929</u>
Operating income (loss)	<u>(1,865)</u>	<u>(2,848)</u>	<u>1,789</u>
Interest income	44	38	56
Interest expense	(7)	(10)	(12)
Gain (loss) on disposal of capital assets	<u>(185)</u>	<u>46</u>	<u>(18)</u>
Nonoperating revenue (expense)	<u>(148)</u>	<u>74</u>	<u>26</u>
Income (loss) before contributions	<u>(2,013)</u>	<u>(2,774)</u>	<u>1,815</u>
Contributions	<u>916</u>	<u>643</u>	<u>258</u>
Change in net position	<u>\$ (1,097)</u>	<u>\$ (2,131)</u>	<u>\$ 2,073</u>

Operating expenses increased in fiscal year 2012 by \$836 or 12.1% over fiscal year 2011. Utility costs and depreciation expense were higher in 2012.

**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2013**

**Financial Analysis (Continued)**

In 2013 nonoperating expenses were up by \$223. Construction projects that were not capitalized but rather expensed, accounted for this difference.

Total contributions increased by \$272, connection charges rose in Oregon City. Connection charges also rose for the District's retail customers.

**Capital Asset and Debt Analysis**

The District's net capital assets decreased by \$937 or 2.1% in fiscal year 2013. From 2011 to 2012 net capital assets increased \$64. For 2013 Plant and equipment, net decreased by \$1,912. Land increased by \$982.

Long term liabilities consist of the outstanding State Revolving Loan. The loan decreased by \$50 in 2013 and \$48 in 2012.

Readers interested in more detailed information are referred to Notes 4 and 5 of the Notes to Basic Financial Statements beginning on page 15.

**Rates and Charges**

In December of 2011 Portland State University (PSU) Population Research Center did a population study for the District. Growth projections within the District for the next five years are in the range of 0.6 to 1.1 percent per year.

While these future customers will increase the District's customer base and enhance realization of economies of scale opportunities, they will also buy into the system through the payment of a system development charge (connection charge), which is currently \$2,020/EDU. These charges will be used for capital construction.

Over the last few years the EDU rate has increased slowly. On July 1, 2010 the rate was \$12.35 per EDU, changed to \$13.35 effective July 1, 2011, and changed to \$15.35 effective July 1, 2012. The most recent budget, adopted in June of 2013, established a rate of \$17.35 per EDU an increase of 13%. Considering the operating loss in 2013 and the need to establish a rate basis capable of supporting future bond issuances, the District felt that a rate increase was justified.

The three member cities of the District each add a charge to the District's base rate to provide for the costs associated with building and maintaining the collection systems operated by each. Oregon City, West Linn, and Gladstone added \$19.30, \$15.49, and \$7.87 per month per EDU, respectively, to the District's \$15.35/mo/EDU rate to provide for the costs associated with combined sewer separation and other collection system upgrades.

**TRI-CITY SERVICE DISTRICT**  
(A Component Unit of Clackamas County, Oregon)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2013**

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

Growth in the customer base resumed in fiscal year 2012-13. EDUs increased by 2.5% in the three cities. This growth rate is larger than would be expected in light of the PSU study. It remains to be seen if this rate is an anomaly or if more robust growth will continue.

The budget for fiscal year 2013-14 represents an 2.0% increase over the budget for fiscal year 2012-13. Sewer treatment revenues are expected to rise due to the \$2.00/EDU per month increase in rates. Labor costs are up due to benefit increases. Chemical and insurance costs are budgeted to increase, as are other county expenses. The District has made an agreement with the county facilities group to supply building and grounds maintenance services. In prior years the District used staff to do maintenance. The District decided that our staff time is better used for our core mission.

Actual operating expenses for 2012-13 were \$990 under budget or 16%. The District budgeted for a large solids handling planning process that was postponed. For more details see the Supplementary Information section.

The District budgeted for \$3,057 in sanitary sewer improvements in 2013. Biosolids fleet and Kellogg flare are the major components of these improvements.

In July of 2012 the District and CCSD No. 1 jointly purchased the former Blue Heron property in West Linn, Oregon. CCSD No. 1 and the District's primary interest is in the existing industrial outfall permit. This permit was purchased in conjunction with the property. At present the site is not being used, however, a remedial investigation and feasibility analysis is underway. The permit should allow the District to avoid substantial future costs.

**Financial Contact**

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

(This page intentionally left blank.)

# Basic Financial Statements





TRI-CITY SERVICE DISTRICT  
(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	\$ 7,453,341	\$ 7,668,845
Accounts receivable	969,496	767,176
Interest receivable	7,547	11,033
Property taxes receivable	1,047	1,184
Prepaid expenses	43,349	8,956
Total current assets	8,474,780	8,457,194
Noncurrent assets:		
Pooled cash and investments - restricted	824,911	779,726
Capital assets:		
Land, easements and construction in progress	4,328,068	3,345,674
Plant and equipment, net	39,035,478	40,947,299
Intangible assets, net	-	7,574
Total capital assets	43,363,546	44,300,547
Total noncurrent assets	44,188,457	45,080,273
TOTAL ASSETS	52,663,237	53,537,467
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	581,324	318,816
Due to Clackamas County	26,930	16,813
State revolving loan payable	50,300	48,357
Accrued interest payable, payable from restricted assets	3,125	4,088
Total current liabilities	661,679	388,074
Long term debt, net of current portion:		
State revolving loan	106,748	157,048
TOTAL LIABILITIES	768,427	545,122
<b>NET POSITION</b>		
Net investment in capital assets	43,206,498	44,095,142
Restricted for capital projects	769,695	724,348
Restricted for debt service	55,216	55,378
Unrestricted	7,863,401	8,117,477
TOTAL NET POSITION	\$ 51,894,810	\$ 52,992,345

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

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Sewerage charges	\$ 5,391,483	\$ 4,597,918
Intergovernmental revenue	711,756	246,358
Other operating revenues	256,369	72,597
Total operating revenues	<u>6,359,608</u>	<u>4,916,873</u>
Operating expenses:		
Contracted salaries and benefits	2,226,661	2,032,633
Professional services	310,564	441,162
Laboratory services	295,917	290,332
Other County services	325,194	295,387
Supplies	745,411	638,717
Vehicle expenses	214,779	166,813
Repairs and maintenance	59,547	63,893
Utilities	773,434	806,086
Insurance	116,224	93,254
Other expenses	156,102	211,398
Depreciation and amortization	3,001,195	2,725,761
Total operating expenses	<u>8,225,028</u>	<u>7,765,436</u>
Operating loss	<u>(1,865,420)</u>	<u>(2,848,563)</u>
Nonoperating revenue (expense):		
Interest income	43,813	38,236
Interest expense	(7,190)	(9,787)
Gain (loss) on disposal of capital assets	(184,640)	46,095
Total nonoperating revenue (expense)	<u>(148,017)</u>	<u>74,544</u>
Loss before contributions	<u>(2,013,437)</u>	<u>(2,774,019)</u>
Contributions:		
Connection charges	<u>915,902</u>	<u>643,467</u>
Change in net position	(1,097,535)	(2,130,552)
Net position - beginning of year	<u>52,992,345</u>	<u>55,122,897</u>
Net position - end of year	<u>\$ 51,894,810</u>	<u>\$ 52,992,345</u>

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

TRI-CITY SERVICE DISTRICT  
(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	\$ 5,861,570	\$ 5,069,387
Payments to suppliers for goods and services	(2,408,678)	(2,339,545)
Payments to related entities for services	(2,822,575)	(2,618,832)
Other operating revenue	256,369	72,597
Net cash from operating activities	886,686	183,607
Cash flows from capital and related financing activities:		
State loan principal paid	(48,357)	(46,488)
State loan interest paid	(8,153)	(10,712)
Connection charges collected	955,250	548,767
Collection of property taxes	137	96
Acquisition of capital assets, net of dispositions	(2,003,181)	(3,435,540)
Net cash from capital and related financing activities	(1,104,304)	(2,943,877)
Cash flows from investing activities:		
Interest received	47,299	37,941
Net decrease in pooled cash and investments	(170,319)	(2,722,329)
Pooled cash and investments, beginning of year	8,448,571	11,170,900
Pooled cash and investments, end of year <sup>(1)</sup>	\$ 8,278,252	\$ 8,448,571
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (1,865,420)	\$ (2,848,563)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	3,001,195	2,725,761
Changes in assets and liabilities:		
(Increase) decrease in sewerage charges and other receivables	(241,669)	225,111
Increase in prepaid expenses	(34,393)	(5,442)
Increase in accounts payable and Due to Clackamas County	26,974	86,740
Total adjustments	2,752,106	3,032,170
Net cash from operating activities	\$ 886,686	\$ 183,607
<sup>(1)</sup> Pooled cash and investments are reflected on the Statements of Net Position as follows:		
Current assets - unrestricted	\$ 7,453,341	\$ 7,668,845
Non-current assets - restricted	824,911	779,726
	\$ 8,278,252	\$ 8,448,571

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

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

---

**1. Description of the District and Summary of its Significant Accounting Policies:**

The District

The District was organized in July 1980 under the provisions of ORS Chapter 451 to provide and operate a sanitary sewerage system within the incorporated areas of the Cities of Oregon City, West Linn and portions of Gladstone. As provided by ORS 451.485, the Clackamas County Board of Commissioners is the governing body of the District.

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

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

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

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 District's basic financial statements are prepared on the accrual basis. The District 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 District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations, primarily sewage treatment operations. Operating expenses include the cost of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenue and expense.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

---

**1. Description of the District and Summary of its 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 regarding the accounting and financial reporting for the District'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, 2013. 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.

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.

The District 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 District's deposits may not be returned. The District's cash and investments are held by Clackamas County in a pool that also includes deposits of CCSD No. 1 and Surface Water Management Agency of Clackamas County. 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 District 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 to get information about the interest, credit, and custodial credit risks associated with the County's various cash and investments.

**Sewerage Charges Receivable**

Sewerage charges receivable represent user charges and are due from property owners within the District, which is presented as part of the accounts receivable balance. An allowance for doubtful accounts is not deemed necessary as uncollectible accounts become a lien on the property.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

---

**1. Description of the District and Summary of its Significant Accounting Policies - Continued:**

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 District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

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

Sewage treatment plant	20 - 50 years
Sewage treatment line system	20 - 50 years
Equipment	5 - 50 years

Intangible Assets

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

Capitalized Interest

Interest costs are capitalized as part of the costs of capital assets during the period of construction, based on the related weighted average net borrowing costs incurred. Interest earned on temporary investments acquired with the proceeds of borrowed funds, is used to reduce the interest costs capitalized on the constructed assets. Interest earned for this calculation is figured from the time of the borrowing until the assets are placed in use. Interest is not capitalized for outlays financed by capital grants (or other outside parties) externally restricted for the acquisition of specified assets. For 2013 and 2012, no interest was capitalized.

Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following four components: Net investment in capital assets, Restricted for capital projects; Restricted for debt service; and Unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt (revenue bonds and other debt obligations) that is attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital projects and debt service consists of net assets, on which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including legal mandates. The balance in Restricted for capital

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

---

**Description of the District and Summary of its Significant Accounting Policies - Continued:**

projects of \$769,695 is restricted due to enabling legislation. This balance relates to unspent System Development Charges. Unrestricted net position consists of all other assets, not included in the above categories.

**Budget**

The District begins its budgetary process by appointing Budget committee members in the spring 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, authorizes appropriations and declares the tax levy, if needed, no later than June 30.

A budget is prepared and legally adopted for each fund, in accordance with the modified accrual basis of accounting and legal requirements set forth in Oregon Local Budget Law. The ordinance authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. All funds establish the levels of budgetary control at the materials and services, reserve for capital improvement, capital outlay, debt service, operating contingencies, other and operating transfers category levels. Unexpected additional resources may be added to the budget through the use of a supplemental budget and transfers of appropriations. 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 and 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.

**Risk Management**

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

For workers' compensation, the District participates in Clackamas County's self-insurance program. All employees of the District are contracted from the County. The District 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

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

---

**1. Description of the District and Summary of its Significant Accounting Policies - Continued:**

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.

Adoption of New GASB Pronouncements

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

Issued June 2011, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

This Statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a 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*.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

---

**1. Description of the District and Summary of its Significant Accounting Policies - Continued:**

*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.

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

Reclassifications

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

**2. Pooled Cash and Investments:**

The pooled cash and investments are comprised of funds held and invested by the Clackamas County Treasurer and LGIP. The District 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 from the Clackamas County Treasurer based on the proportion of the District's funds to total of Clackamas County Service District No. 1, Surface Water Management Agency of Clackamas County, and the District's 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.

The District 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

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

**2. Pooled Cash and Investments - Continued:**

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+.

**3. Accounts Receivable:**

Amounts are comprised of the following:

	<u>2013</u>	<u>2012</u>
Sewerage charges	\$ 692,542	\$ 448,513
Connection charges from cities	85,882	125,231
Pump station charges	1,978	1,649
Intergovernmental agreement and miscellaneous receivables	<u>189,094</u>	<u>191,783</u>
	<u>\$ 969,496</u>	<u>\$ 767,176</u>

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

**4. Capital Assets:**

Changes in capital assets for the year ended June 30, 2013 were as follows:

	Balance July 1, 2012	Additions	Transfers	Deletions	Balance June 30, 2013
Capital assets not being depreciated:					
Land and easements	\$ 2,379,564	\$ -	\$ 1,135,135	\$ -	\$ 3,514,699
Construction in progress	966,110	2,251,562	(2,218,939)	(185,364)	813,369
<b>Total capital assets, not being depreciated</b>	<b>3,345,674</b>	<b>2,251,562</b>	<b>(1,083,804)</b>	<b>(185,364)</b>	<b>4,328,068</b>
Capital assets being depreciated and amortized:					
Intangibles	1,040,218	-	-	-	1,040,218
Collection plant	20,012,334	-	188,628	-	20,200,962
Pumping plant	4,538,350	-	10,433	-	4,548,783
Treatment plant	56,564,634	-	524,231	-	57,088,865
General plant	7,336,345	-	360,512	(32,824)	7,664,033
<b>Total capital assets being depreciated and amortized</b>	<b>89,491,881</b>	<b>-</b>	<b>1,083,804</b>	<b>(32,824)</b>	<b>90,542,861</b>
Less accumulated depreciation and amortization for:					
Intangibles	(1,032,644)	(7,572)	-	-	(1,040,216)
Collection plant	(8,449,530)	(415,856)	-	-	(8,865,386)
Pumping plant	(3,065,619)	(87,384)	-	-	(3,153,003)
Treatment plant	(31,728,459)	(2,141,570)	-	-	(33,870,029)
General plant	(4,260,756)	(348,813)	-	30,820	(4,578,749)
<b>Total accumulated depreciation and amortization</b>	<b>(48,537,008)</b>	<b>(3,001,195)</b>	<b>-</b>	<b>30,820</b>	<b>(51,507,383)</b>
<b>Total capital assets being depreciated and amortized, net</b>	<b>40,954,873</b>	<b>(3,001,195)</b>	<b>1,083,804</b>	<b>(2,004)</b>	<b>39,035,478</b>
<b>Total capital assets, net</b>	<b>\$ 44,300,547</b>	<b>\$ (749,633)</b>	<b>\$ -</b>	<b>\$ (187,368)</b>	<b>\$ 43,363,546</b>

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

**4. Capital Assets – Continued:**

Changes in capital assets for the year ended June 30, 2012 were as follows:

	Balance July 1, 2011	Additions	Transfers	Deletions*	Balance June 30, 2012
Capital assets not being depreciated:					
Land and easements	\$ 2,379,564	\$ -	\$ -	\$ -	\$ 2,379,564
Construction in progress	1,388,601	2,917,150	(3,339,641)	-	966,110
<b>Total capital assets, not being depreciated</b>	<b>3,768,165</b>	<b>2,917,150</b>	<b>(3,339,641)</b>	<b>-</b>	<b>3,345,674</b>
Capital assets being depreciated and amortized:					
Intangibles	1,040,218	-	-	-	1,040,218
Collection plant	20,012,334	-	-	-	20,012,334
Pumping plant	4,527,871	-	10,479	-	4,538,350
Treatment plant	53,930,509	-	2,634,125	-	56,564,634
General plant	6,822,878	-	695,037	(181,570)	7,336,345
<b>Total capital assets being depreciated and amortized</b>	<b>86,333,810</b>	<b>-</b>	<b>3,339,641</b>	<b>(181,570)</b>	<b>89,491,881</b>
Less accumulated depreciation and amortization for:					
Intangibles	(972,627)	(60,017)	-	-	(1,032,644)
Collection plant	(8,033,727)	(415,803)	-	-	(8,449,530)
Pumping plant	(2,979,283)	(86,336)	-	-	(3,065,619)
Treatment plant	(29,849,175)	(1,879,284)	-	-	(31,728,459)
General plant	(4,030,920)	(284,320)	-	54,484	(4,260,756)
<b>Total accumulated depreciation and amortization</b>	<b>(45,865,732)</b>	<b>(2,725,760)</b>	<b>-</b>	<b>54,484</b>	<b>(48,537,008)</b>
<b>Total capital assets being depreciated and amortized, net</b>	<b>40,468,078</b>	<b>(2,725,760)</b>	<b>3,339,641</b>	<b>(127,086)</b>	<b>40,954,873</b>
<b>Total capital assets, net</b>	<b>\$ 44,236,243</b>	<b>\$ 191,390</b>	<b>\$ -</b>	<b>\$ (127,086)</b>	<b>\$ 44,300,547</b>

\* Sale of capital asset to Clackamas County

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

---

**5. State Revolving Loan:**

The District has a state revolving loan from the Department of Environmental Quality which was obtained for the purpose of acquiring capital assets. Payments are due semi-annually at an interest rate of 3.98% plus administration fees. Payments of \$48,357 and \$46,488 were due in 2013 and 2012, respectively, and were paid. The original amount of this loan was \$756,352 and is collateralized by future sewer revenues.

Changes in state revolving loan payable for the year are as follows:

Balance July 1, 2011	\$	251,893
Payments		<u>(46,488)</u>
Balance July 1, 2012		205,405
Payments		<u>(48,357)</u>
Balance June 30, 2013		157,048
Current portion		<u>(50,300)</u>
Long-term portion	\$	<u><u>106,748</u></u>

This loan contains certain financial covenants. As of June 30, 2013, the District was in compliance with these covenants.

Future maturities are as follows:

Fiscal Year	Principal	Interest	Admin. Fees	Total
2014	\$ 50,300	\$ 5,755	\$ 330	\$ 56,385
2015	52,322	3,733	404	56,459
2016	<u>54,426</u>	<u>1,630</u>	<u>137</u>	<u>56,193</u>
	<u>\$ 157,048</u>	<u>\$ 11,118</u>	<u>\$ 871</u>	<u>\$ 169,037</u>

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

---

**6. Related Party Transactions:**

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

- Clackamas County
- Clackamas County Service District No. 1
- Clackamas County Service District No. 5
- Clackamas County Development Agency
- Surface Water Management Agency of Clackamas County
- Housing Authority of Clackamas County
- North Clackamas Parks and Recreation District
- Clackamas County Enhanced Law Enforcement District
- Estacada Area County Service District for Library Services
- Library District of Clackamas County
- Clackamas County Extension and 4-H Service District

Clackamas County employees, working on behalf of Water Environment Services and Clackamas County Service District No. 1, perform certain fiscal, accounting and sewerage operations for which the District was charged \$2,832,691 and \$2,610,502 for fiscal years 2013 and 2012, respectively. At June 30, related party balances amounted to \$26,930 and \$16,813 for 2013 and 2012, respectively.

A December 18, 2008 IGA required CCSD No. 1 to pay the District \$4,000,000 as a one-time payment for the use of the existing capital infrastructure of the Tri-City Treatment Plant and as compensation for the opportunity to lease land and attach the Phase 1 Capacity to existing TCSD infrastructure. TCSD received payment of the \$4,000,000 in June of 2011, and was recorded as operating income, because the payment concerns the use of TCSD treatment capacity.

On May 12, 2011, the District and CCSD No. 1 amended the December 2008 IGA to address the future sharing of operations and maintenance expenses that arise from the joint operation of the Districts' assets at the Tri-City Plant.

On January 6, 2011, the District entered into an IGA with Clackamas County Service District No. 1 for treatment of biosolids. Per the terms of this IGA, the District received from CCSD No. 1 \$711,756 and \$246,358 for biosolids treatment services provided in fiscal years 2013 and 2012, respectively. The payments were booked as operating revenue, since they relate to treatment of biosolids at TCSD on behalf of CCSD No. 1.

On December 13, 2012, the District entered into a Mutual Investment Agreement with Clackamas County Service District No. 1 for the purchase of the Blue Heron property. The parties agreed that each would be responsible for one-half of the purchase price in the amount of \$875,335.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

---

**7. Commitments:**

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

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

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

	2013	2012
Sewerage user fees	\$ 5,219,664	\$ 4,447,446
Connection charges	895,216	643,467
Pump station maintenance charges	6,274	4,688
	\$ 6,121,154	\$ 5,095,601

The District is committed under contractual agreements for various multi-year contracts. The total contract costs are approximately \$1,571,000. As of June 30, 2013, approximately \$663,000 of these contracts remain outstanding.

**8. Litigation:**

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

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS, continued  
JUNE 30, 2013 and 2012

---

**9. Pollution Remediation:**

The District entered into an agreement with the State of Oregon Department of Environmental Quality on June 2, 2000 which requires the District to perform certain, specific pollution remediation measures on property owned by the District adjacent to the Tri-City Water Pollution Control Plant (TCWPCP) which had been used for municipal refuse. The agreement does not have a specific date by which these remediation efforts must be completed. Rather, these measures are to be taken at the time in the future when the District finds itself needing to expand the TCWPCP into that property to provide additional treatment capacity.

On July 19, 2012 the Oregon Department of Environmental Quality (DEQ) issued a Consent Order to CCSD No. 1 and the District. The purpose of the agreement was to: (a) protect the public health, safety, and welfare and the environment through the design and implementation of remedial measures on the Blue Heron site; (b) to facilitate productive reuse of the property; and (c) to provide CCSD No. 1 and the District with protection from potential liabilities in accordance with applicable law. The Remedial Investigation and Risk Assessment have been completed and are awaiting DEQ review. The Feasibility Study is scheduled for completion in December 2013. At that time the District should be able to estimate remediation costs, as well as scheduling for the work. The District will budget these costs in fiscal year 2014-15.

**10. Subsequent Events:**

The District and CCSD No. 1 are finalizing an IGA for maintenance and facilities management services with Clackamas County. It is estimated that the Districts will pay the county not more than \$267,000 for the fiscal year 2014.

# Supplementary Information





TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)  
DESCRIPTION OF BUDGETARY FUNDS

---

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

General Fund

The General Fund accounts for all activities not accounted for by the District's other funds, primarily sewer operations. The primary resources are sewerage service charges and intergovernmental revenue.

System Development Charge Fund

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

State Revolving Loan Debt Service Fund

The State Revolving Loan Debt Service Fund accounts for payment of the Department of Environmental Quality loan. The primary revenue source is an operating transfer from the General Fund.

Construction Fund

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

TRI-CITY SERVICE DISTRICT  
 (A Component Unit of Clackamas County, Oregon)  
 GENERAL FUND  
 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 Budget	Actual		
<b>REVENUES:</b>				
Sewerage user charges	\$ 5,488,921	\$ 5,391,484.0	\$ (97,437)	\$ 4,597,918
Interest on investments	20,595	26,436	5,841	26,988
Pump station operation charges	7,000	6,274	(726)	4,688
Intergovernmental revenue	250,000	711,756	461,756	419,539
Miscellaneous	200,000	252,824	52,824	67,908
Total revenues	<u>5,966,516</u>	<u>6,388,774</u>	<u>422,258</u>	<u>5,117,041</u>
<b>EXPENDITURES:</b>				
Materials and services	6,278,385	5,282,274	996,111	5,069,330
Contingency	627,839	-	627,839	-
Total expenditures	<u>6,906,224</u>	<u>5,282,274</u>	<u>1,623,950</u>	<u>5,069,330</u>
Revenues over (under) expenditures	<u>(939,708)</u>	<u>1,106,500</u>	<u>2,046,208</u>	<u>47,711</u>
<b>OTHER FINANCING USES:</b>				
Transfers to other funds:				
State Revolving Loan Fund	(56,960)	(56,028)	932	(57,200)
Sanitary Sewer Construction Fund	-	-	-	(1,700,000)
Total transferred to other funds	<u>(56,960)</u>	<u>(56,028)</u>	<u>932</u>	<u>(1,757,200)</u>
Net change in fund balance	<u>(996,668)</u>	<u>1,050,472</u>	<u>2,047,140</u>	<u>(1,709,489)</u>
Fund balance - beginning as previously reported	4,119,009	4,720,299	601,290	6,429,788
Restatement *	-	(74,889)	(74,889)	-
Fund balance - beginning, as restated	<u>4,119,009</u>	<u>4,645,410</u>	<u>526,401</u>	<u>6,429,788</u>
Fund balance - ending	<u>\$ 3,122,341</u>	5,695,882	<u>\$ 2,573,541</u>	<u>\$ 4,720,299</u>
Adjustment to GAAP basis:				
Capital assets (net of accumulated depreciation)		43,363,546		
Interest receivable		4,703		
Net position - GAAP basis		<u>\$ 49,064,131</u>		

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

TRI-CITY SERVICE DISTRICT  
 (A Component Unit of Clackamas County, Oregon)  
 SYSTEM DEVELOPMENT CHARGE FUND  
 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 Budget	Actual		
REVENUES:				
Connection charges	\$ 474,700	\$ 915,901	\$ 441,201	\$ 643,467
Interest on investments	5,404	8,262	2,858	3,526
Total revenues	<u>480,104</u>	<u>924,163</u>	<u>444,059</u>	<u>646,993</u>
EXPENDITURES:				
Capital Outlay	1,000,000	918,166	81,834	320,538
Contingency	250,000	-	250,000	-
Total expenditures	<u>1,250,000</u>	<u>918,166</u>	<u>331,834</u>	<u>320,538</u>
Revenues over (under) expenditures	<u>(769,896)</u>	<u>5,997</u>	<u>775,893</u>	<u>326,455</u>
Net change in fund balance	<u>(769,896)</u>	<u>5,997</u>	<u>(775,893)</u>	<u>326,455</u>
Fund balance - beginning as previously reported	1,080,868	1,306,264	(225,396)	979,809
Restatement *	-	(456,685)	456,685	-
Fund balance - beginning, as restated	<u>1,080,868</u>	<u>849,579</u>	<u>231,289</u>	<u>979,809</u>
Fund balance - ending	<u>\$ 310,972</u>	855,576	<u>\$ (544,604)</u>	<u>\$ 1,306,264</u>
Adjustment to GAAP basis:				
Interest receivable		1,072		
Net position - GAAP basis		<u>\$ 856,648</u>		

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

TRI-CITY SERVICE DISTRICT  
 (A Component Unit of Clackamas County, Oregon)  
 STATE REVOLVING DEBT SERVICE FUND  
 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 Budget	Actual		
REVENUES:				
Interest on investments	\$ 289	\$ 319	\$ 30	\$ 248
EXPENDITURES:				
Principal	48,357	48,357	-	46,488
Interest	8,606	8,153	453	9,787
Total expenditures	56,963	56,510	453	56,275
Revenues over (under) expenditures	(56,674)	(56,191)	483	(56,027)
OTHER FINANCING SOURCES:				
Transfer from other funds:				
General Fund	56,960	56,028	(932)	57,200
Net change in fund balance	286	(163)	(449)	1,173
Fund balance - beginning as previously reported	57,839	58,724	885	57,551
Restatement *	-	(3,346)	(3,346)	-
Fund balance - beginning, as restated	57,839	55,378	(2,461)	57,551
Fund balance - ending	\$ 58,125	55,215	\$ (2,910)	\$ 58,724
Adjustment to GAAP basis:				
Notes and loans payable		(157,048)		
Interest payable		(3,125)		
Interest receivable		54		
Net position - GAAP basis		\$ (104,904)		

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

TRI-CITY SERVICE DISTRICT  
 (A Component Unit of Clackamas County, Oregon)  
 CONSTRUCTION FUND  
 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 Budget	Actual		
REVENUES:				
Miscellaneous revenue	\$ -	\$ 1,500	\$ 1,500	\$ -
Interest on investments	14,631	12,282	(2,349)	7,474
Total revenues	14,631	13,782	(849)	7,474
EXPENDITURES:				
Capital Outlay	2,057,000	1,274,958	782,042	2,566,956
Contingency	483,840	-	483,840	-
Total expenditures	2,540,840	1,274,958	1,265,882	2,566,956
Revenues over (under) expenditures	(2,526,209)	(1,261,176)	1,265,033	(2,559,482)
OTHER FINANCING SOURCES:				
Transfer from other funds:				
General Fund	-	-	-	1,700,000
Net change in fund balance	(2,526,209)	(1,261,176)	1,265,033	(859,482)
Fund balance - beginning as previously reported	2,926,209	3,773,230	847,021	4,632,712
Restatement *	-	(434,838)	(434,838)	-
Fund balance - beginning, as restated	2,926,209	3,338,392	(412,183)	4,632,712
Fund balance - ending	\$ 400,000	2,077,216	\$ 1,677,216	\$ 3,773,230
Adjustment to GAAP basis:				
Interest receivable		1,719		
Net position - GAAP basis		\$ 2,078,935		

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

TRI-CITY SERVICE DISTRICT  
 (A Component Unit of Clackamas County, Oregon)  
 SUMMARY OF NET POSITION  
 BY FUND  
 for the year ended June 30, 2013

---

Fund	Description	Net Position GAAP Basis
201	General Fund	\$ 49,064,131
202	System Development Charge Fund	856,648
205	State Revolving Loan Fund	(104,904)
209	Construction Fund	2,078,935
	Total Net Position	\$ 51,894,810

# Statistical Statements





## STATISTICAL SECTION

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

<b>Contents</b>	<b>Page</b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how financial performance has changed over time.	34
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the District's most significant revenue source, user fees.	36
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future. The District does not have any indebtedness subject to the legal debt limitation in accordance with Oregon Revised Statutes 451.545; consequently, the schedule of the computation of legal debt margin is not included in the statistical section.	38
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	40
<b>Operating Information</b> These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	43

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

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

NET POSITION BY COMPONENT  
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Net Investment in Capital Assets	Restricted	Unrestricted	Net Position
2004	\$ 50,425,278	\$ 3,343,400	\$ 5,525,318	\$ 59,293,996
2005	49,451,605	4,097,248	4,841,245	58,390,098
2006	47,829,136	2,193,429	7,833,300	57,855,865
2007	47,293,831	2,520,992	7,221,349	57,036,172
2008	43,353,751	3,769,440	7,687,017	54,810,208
2009	42,485,598	2,691,978	8,534,626	53,712,202
2010	41,408,645	2,364,189	9,277,358	53,050,192
2011	43,984,351	547,548	10,590,998	55,122,897
2012	44,095,142	779,726	8,117,477	52,992,345
2013	43,206,498	824,911	7,863,401	51,894,810

Source: District's Comprehensive Annual Financial Report

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

CHANGES IN NET POSITION  
Last Ten Fiscal Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Operating revenues:</b>										
Sewerage charges	\$ 3,421,508	\$ 3,481,711	\$ 3,575,913	\$ 3,805,757	\$ 4,193,334	\$ 4,047,775	\$ 4,150,524	\$ 4,262,043	\$ 4,597,918	\$ 5,391,483
Pump station maintenance charges	6,746	10,415	10,278	-	584,680	692,530	1,125,220	4,877,816	246,358	711,756
Intergovernmental revenues	488,485	451,950	459,455	517,773	48,814	56,333	566,542	(421,824)	72,597	256,369
Other operating revenues	70,560	52,692	53,317	57,147	48,814	4,796,638	5,842,286	8,718,035	4,916,873	6,359,608
Total operating revenues	3,967,299	3,996,768	4,098,963	4,380,677	4,826,828	4,796,638	5,842,286	8,718,035	4,916,873	6,359,608
<b>Operating expenses:</b>										
Contracted salaries and benefits	2,019,474	1,943,422	2,187,131	1,729,922	1,761,940	1,767,790	1,901,624	2,056,000	2,032,633	2,226,661
Professional services	83,011	161,864	149,170	130,185	183,130	95,408	307,227	402,191	441,162	310,564
Laboratory services	-	-	-	229,499	253,990	263,613	268,635	269,265	290,332	295,917
Other County services	-	-	-	230,536	277,522	291,847	293,702	327,698	295,387	325,194
Supplies	632,229	588,169	592,609	484,792	506,603	685,573	613,043	590,176	638,717	745,411
Vehicle expenses	95,897	130,858	162,018	172,449	194,305	119,498	125,979	183,220	166,813	214,779
Repairs and maintenance	-	-	-	80,680	89,451	87,762	68,361	65,991	63,893	59,547
Utilities	614,790	504,207	590,574	618,531	668,224	711,955	699,809	554,556	806,086	773,434
Insurance	77,748	79,577	76,598	73,205	75,889	80,377	80,846	79,800	93,254	116,224
Other expenses	219,580	221,008	172,853	144,100	147,498	190,811	196,324	173,533	211,398	156,102
Depreciation and amortization	2,424,160	2,169,867	1,730,786	2,029,924	2,024,142	2,183,526	2,191,524	2,226,580	2,725,761	3,001,195
Total operating expenses	6,166,889	5,778,972	5,661,739	5,923,823	6,182,694	6,478,160	6,747,074	6,929,010	7,765,436	8,225,028
Operating income (loss)	(2,199,590)	(1,782,204)	(1,562,776)	(1,543,146)	(1,355,866)	(1,681,522)	(904,788)	1,789,025	(2,848,563)	(1,865,420)
<b>Nonoperating revenue (expense):</b>										
Interest income	125,071	145,920	407,903	432,080	386,854	228,743	44,854	56,316	38,236	43,813
Interest expense	(24,202)	(22,639)	(21,013)	(19,321)	(17,561)	(15,731)	(13,827)	(11,847)	(9,787)	(7,190)
Property taxes	(3,874)	286	(5,255)	(396)	(44)	-	-	-	-	-
Grants	-	-	-	-	-	1,500	-	-	-	-
Gain (loss) on disposal of capital assets	-	-	(83,435)	(872,339)	(1,833,836)	(17,178)	(235,887)	(18,154)	46,095	(184,640)
Total nonoperating revenue (expense)	96,995	123,567	298,200	(459,976)	(1,464,587)	197,334	(204,860)	26,315	74,544	(148,017)
Income (loss) before contributions	(2,102,595)	(1,658,637)	(1,264,576)	(2,003,122)	(2,820,453)	(1,484,188)	(1,109,648)	1,815,340	(2,774,019)	(2,013,437)
<b>Contributions:</b>										
Connection charges	692,337	754,739	686,309	938,495	516,098	386,182	447,638	257,365	643,467	915,902
Capital contributions	-	-	44,034	244,934	78,391	-	-	-	-	-
Total contributions	692,337	754,739	730,343	1,183,429	594,489	386,182	447,638	257,365	643,467	915,902
<b>Change in net position</b>	<b>\$ (1,410,258)</b>	<b>\$ (903,898)</b>	<b>\$ (534,233)</b>	<b>\$ (819,693)</b>	<b>\$ (2,225,964)</b>	<b>\$ (1,098,006)</b>	<b>\$ (662,010)</b>	<b>\$ 2,072,705</b>	<b>\$ (2,130,552)</b>	<b>\$ (1,097,535)</b>

In 2009, the 2007 and 2008 statistics have been revised to reflect new categories.

Source: District's Comprehensive Annual Financial Report

**TRI-CITY SERVICE DISTRICT**  
 (A Component Unit of Clackamas County, Oregon)  
**MONTHLY SEWERAGE RATE AND SEWERAGE CHARGES REVENUE BY TYPE OF CUSTOMER**  
 Last Ten Fiscal Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Sewerage Rate</b>										
Monthly service charge	\$ 10.60	\$ 10.60	\$ 10.60	\$ 11.10	\$ 11.65	\$ 11.65	\$ 12.00	\$ 12.35	\$ 13.35	\$ 15.35
<b>Type of Customer</b>										
<b>Sewerage Charges</b>										
Cities <sup>(1)</sup>	\$ 3,277,175	\$ 3,326,211	\$ 3,406,106	\$ 3,668,017	\$ 4,041,439	\$ 3,899,616	\$ 4,007,261	\$ 4,117,476	\$ 4,447,446	\$ 5,219,665
Residential	117,360	108,355	127,140	117,360	129,096	129,954	130,416	130,977	131,304	149,100
Commercial	12,629	25,564	26,035	14,099	16,265	12,199	7,303	8,046	13,372	16,418
Industrial	9,305	16,530	11,592	1,240	990	462	-	-	-	-
Other	5,039	5,051	5,040	5,041	5,544	5,544	5,544	5,544	5,796	6,300
<b>Total</b>	<b>\$ 3,421,508</b>	<b>\$ 3,481,711</b>	<b>\$ 3,575,913</b>	<b>\$ 3,805,757</b>	<b>\$ 4,193,334</b>	<b>\$ 4,047,775</b>	<b>\$ 4,150,524</b>	<b>\$ 4,262,043</b>	<b>\$ 4,597,918</b>	<b>\$ 5,391,483</b>

Source: District's Records

<sup>(1)</sup> Cities of the District are Oregon City, West Linn, and Gladstone and account for more than ninety-five percent of total sewerage charges.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

PRINCIPAL RATEPAYERS WITHIN DISTRICT<sup>(1)</sup>  
Last Ten Fiscal Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Type of Customer</b>										
Wholesale:										
City of Oregon City	\$ 1,608,799	\$ 1,650,247	\$ 1,659,955	\$ 1,786,560	\$ 1,910,208	\$ 1,931,108	\$ 1,973,478	\$ 2,016,912	\$ 2,173,851	\$ 2,563,473
City of West Linn	1,254,273	1,262,238	1,266,017	1,349,631	1,572,612	1,408,952	1,454,904	1,504,384	1,627,985	1,910,728
City of Gladstone	414,103	413,726	480,134	531,826	558,619	559,556	578,879	596,180	645,610	745,464
<b>Total</b>	<b>\$ 3,277,175</b>	<b>\$ 3,326,211</b>	<b>\$ 3,406,106</b>	<b>\$ 3,668,017</b>	<b>\$ 4,041,439</b>	<b>\$ 3,899,616</b>	<b>\$ 4,007,261</b>	<b>\$ 4,117,476</b>	<b>\$ 4,447,446</b>	<b>\$ 5,219,665</b>

Source: District's Records

<sup>(1)</sup> Cities of the District are Oregon City, West Linn, and Gladstone and account for more than ninety-five percent of total sewerage charges.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

RATIOS OF OUTSTANDING DEBT BY TYPE  
Last Ten Fiscal Years

---

Fiscal Year Ended June 30,	Loan Payable	Percentage of Personal Income	Per Capita
2004	\$ 530,714	\$ 0.022	8
2005	495,434	0.019	8
2006	458,735	0.017	7
2007	420,561	0.015	6
2008	380,853	0.013	6
2009	339,549	0.012	5
2010	296,585	0.010	4
2011	251,893	0.008	4
2012	205,405	N/A	3
2013	157,048	N/A	2

N/A: Not available

Source: District's records

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

OVERLAPPING GENERAL OBLIGATION BONDED DEBT  
June 30, 2013

Governmental Unit	Debt Outstanding	Percent Overlapping	Overlapping General Obligation Bonded Debt
<b>Debt repaid with property taxes</b>			
City of Oregon City	\$ 1,425,000	90.16 %	\$ 1,284,780
City of West Linn	19,415,000	99.99	19,413,059
Clackamas Community College	27,365,000	19.58	5,358,067
Clackamas County	108,260,000	14.24	15,416,224
Clackamas County Education Service District	2,093,395	15.03	314,637
Clackamas County Rural Fire Protection District #1	1,790,000	13.88	248,452
Clackamas County School District #115 (Gladstone)	50,968,229	65.96	33,618,644
Clackamas County School District #12 (North Clackamas)	341,589,382	0.26	888,132
Clackamas County School District #3J (West Linn/Wilsonville)	198,367,238	47.26	93,748,357
Clackamas County School District #62 (Oregon City)	86,200,000	49.92	43,031,040
Clackamas County School District #7J (Lake Oswego)	102,979,109	0.41	422,214
Metro	248,275,000	3.49	8,664,798
Portland Community College	176,450,000	0.02	35,290
Tualatin Valley Fire & Rescue District	45,050,000	6.07	2,734,535
<b>Other Debt</b>			
City of Gladstone	1,935,000	66.62	1,289,097
City of Oregon City	15,510,000	90.16	13,983,816
Clackamas Community College	47,495,000	19.58	9,299,521
Clackamas County	5,705,000	14.24	812,392
Clackamas County Education Service District	24,895,000	15.03	3,741,719
Clackamas County Rural Fire Protection District #1	19,275,000	13.88	2,675,370
Metro	34,570,000	3.49	1,206,493
Port of Portland	68,077,306	3.20	2,178,474
Portland Community College	339,660,000	0.02	67,932
Tualatin Valley Fire & Rescue District	14,000,000	6.07	849,800
<b>Total overlapping debt</b>	<u>\$ 1,981,349,659</u>		<u>\$ 261,282,843</u>

Note:

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

(2) This schedule is provided for informational purposes only since Tri-City Service District has no bonded debt outstanding.

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

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

DEMOGRAPHIC AND ECONOMIC STATISTICS  
Last Ten Fiscal Years

---

Ended June 30,	Population Estimate	Personal Income <sup>1, 2</sup>	Per Capita Personal Income <sup>1, 2</sup>	Unemployment Rate (PMSA)
2004	63,710	\$ 2,363,258,740	\$ 37,094	7.4 %
2005	64,480	2,561,725,920	39,729	6.8
2006	65,210	2,698,259,380	41,378	5.4
2007	65,930	2,898,612,450	43,965	4.6
2008	66,440	2,976,711,320	44,803	4.8
2009	67,020	2,925,154,920	43,646	11.3
2010	67,325	3,026,528,050	44,954	9.9
2011	67,665	3,106,838,475	45,915	9.1
2012	68,965	N/A	N/A	7.8
2013	69,365	N/A	N/A	7.2

N/A: Not available

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

<sup>1</sup>2011 Personal Income and Per Capita Personal Income statistics revised April, 2013.

<sup>2</sup>Figures are for calendar year; Personal Income and Per Capita Income for 2012 and 2013 are not available.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

PRINCIPAL EMPLOYERS <sup>(1)</sup>  
Current Year and Nine Years Ago

Employer	2013			2004		
	Employees	Rank	Percentage of Total (2)	Employees	Rank	Percentage of Total (2)
Intel Corp.	16,250	1	.02 %	14,510	1	.02 %
Providence Health System	14,389	2	.01	13,475	2	.01
U.S. Federal Govt.	13,900	3	.01			
Oregon Health & Sciences University	13,733	4	.01	11,500	3	.01
Fred Meyer Stores	10,389	5	.01	9,492	4	.01
Legacy Health System	9,662	6	.01	7,816	6	.01
Kaiser Foundation Health Plan of the Northwest	9,195	7	.01	8,051	5	.01
City of Portland	8,951	8	.01			.00
State of Oregon	7,559	9	.01			.00
Nike Inc.	7,000	10	.01	4,500	9	
Tektronix				4,301	10	
Safeway, Inc., Portland Division				6,000	7	.01
Multnomah Co.				4,801	8	.01
Total	<u>111,028</u>		<u>0.11 %</u>	<u>84,446</u>		<u>0.09 %</u>

Sources:

(1) Statistics are the latest available data published in the Portland Business Journal *Book of Lists 2013* and *Book of Lists 2004*. The Business Journal *Book of Lists* ranks Portland Metropolitan Area employers.

(2) Total Portland Metropolitan Area employment used to calculate percentages is from the Oregon Employment Department.

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION  
Last Ten Fiscal Years

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Business & Financial Services	3	3	1	1	1	2	2	4	4	8
Asset & Capacity Management	6	2	2	2	2	1	1	1	1	3
Water Quality Services	15	16	16	13	14	14	15	14	13	15
Environmental Monitoring Services	2	2	2	4	4	4	3	4	3	2
<b>Total</b>	<u>26</u>	<u>23</u>	<u>21</u>	<u>20</u>	<u>21</u>	<u>21</u>	<u>21</u>	<u>23</u>	<u>21</u>	<u>28</u>

Water Environment Services is responsible for the general management and operation of Clackamas County Service District No. 1, Tri-City Service District, and the Surface Water Management Agency of Clackamas County. Employees when possible, directly charge their time to appropriate service districts. Otherwise, their time is allocated. Hence, employee counts listed above are expressed in full time equivalents devoted to Tri-City Service District operations.

Source: District's records

**TRI-CITY SERVICE DISTRICT**  
 (A Component Unit of Clackamas County, Oregon)  
  
**OPERATING INDICATORS BY FUNCTION**  
 Last Ten Fiscal Years

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Business-type activities:</b>										
<b>Sewerage charges:</b>										
Monthly service charge	\$ 10.60	\$ 10.60	\$ 10.60	\$ 11.10	\$ 11.65	\$ 11.65	\$ 12.00	\$ 12.35	\$ 13.35	\$ 15.35
Total amount collected	\$ 3,421,508	\$ 3,481,711	\$ 3,575,913	\$ 3,805,757	\$ 4,193,334	\$ 4,047,775	\$ 4,150,524	\$ 4,262,043	\$ 4,597,918	\$ 5,391,483
Percentage increase/(decrease)	2.4	1.8	2.7	6.4	10.2	(3.5)	2.5	2.7	7.9	17.3
<b>Connection fees/EDU</b>										
Total amount collected	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020	\$ 2,020
Percentage increase/(decrease)	\$ 692,337	\$ 754,739	\$ 686,309	\$ 938,495	\$ 516,098	\$ 386,182	\$ 447,638	\$ 257,365	\$ 643,467	\$ 915,902
	(40.1)	9.0	(9.1)	36.7	(45.0)	(25.2)	15.9	(33.4)	150.0	42.3
<b>Hydraulic treatment capacities</b>										
(in million gallons/day)	11	11	11	11	11	11	11	11	11	11.9
Current flows	8.73	8.32	10.07	9.01	8.93	7.93	9.82	10.66	9.49	9.80
(in million gallons/day)										

Source: District's Records

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

TRI-CITY SERVICE DISTRICT  
(A Component Unit of Clackamas County, Oregon)

CAPITAL ASSET STATISTICS BY FUNCTION  
Last Ten Fiscal Years

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Business-type activities:										
Sanitary sewer										
Treatment Plants	1	1	1	1	1	1	1	1	1	1
Pump Stations	4	4	4	4	4	4	4	4	4	4
Miles of pipe	21.24	21.24	21.24	21.24	21.24	21.24	21.24	21.24	21.26	21.26

Source: District's records

# Compliance Reports



TM



## **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  
Tri-City Service District  
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 Tri-City Service District (the District), a component unit of Clackamas County, Oregon as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District'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 District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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*.

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

### **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  
Tri-City Service District  
Oregon City, Oregon

We have audited the basic financial statements of Tri-City Service District (the District), 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 District'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

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



