

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal years ended June 30, 2014 and 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, 2014 and 2013

Prepared by:
WATER ENVIRONMENT SERVICES
Business and Financial Services

Douglas Waugh, Finance Manager

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

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

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Introductory Section



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, 2014

<u>Name</u>	<u>Term Expires</u>
John 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

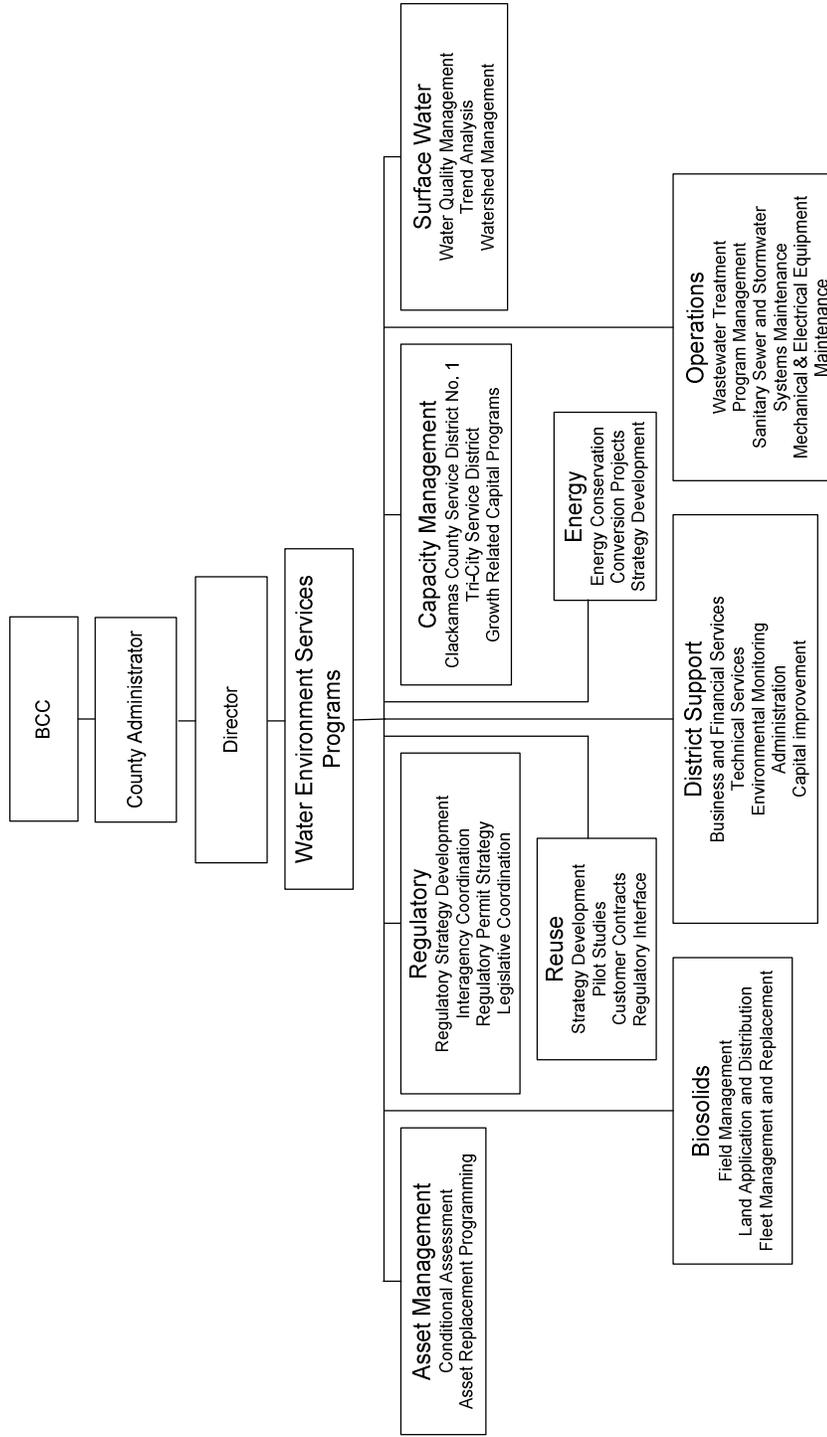
DISTRICT ADMINISTRATOR

Donald Krupp
2051 Kaen Road
Oregon City, Oregon 97045

REGISTERED AGENT

J. Michael Read
150 Beaver Creek Road
Oregon City, Oregon 97045

Water Environment Services
 A Department of Clackamas County
 2013/2014





November 24, 2014

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, 2014, 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, 2014, 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.

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.

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

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 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).

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

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 has been recently completed. Because the reports revealed minimal pollutant levels, CCSD No. 1 and the District will now be able to move forward with planning efforts for the cleanup rather than pursue additional studies. Please refer to Note 9 beginning on page 26 in the Notes to Basic Financial Statements for additional information.

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 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.

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

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, 2013. 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, 2014, 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,



J. Michael Read
Interim 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, 2013

Executive Director/CEO

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Financial Section



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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, 2014 and 2013, 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.

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2014 and 2013, 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.

REPORT OF INDEPENDENT AUDITORS (continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014 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 November 24, 2014, 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
November 24, 2014

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

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, 2014, 2013 and 2012. 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 \$50,416. Of this amount, \$7,974 (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 \$1,723 in fiscal year 2014 primarily due to a decrease in noncurrent assets, specifically a reduction of \$1,433 in plant and equipment.
- Operating revenues were up \$427. Sewer charges from the cities were up \$797 and payments from Clackamas County Service District No. 1 (CCSD No. 1) under an Intergovernmental Agreement (IGA) for the dewatering of Biosolids was down \$363.
- Operating expense increased by \$466. The primary contributing factors were increases in other County services, supplies, and other 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 position. These statements are prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Statements of Cash Flows are an analysis of the change in the 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, 2014

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

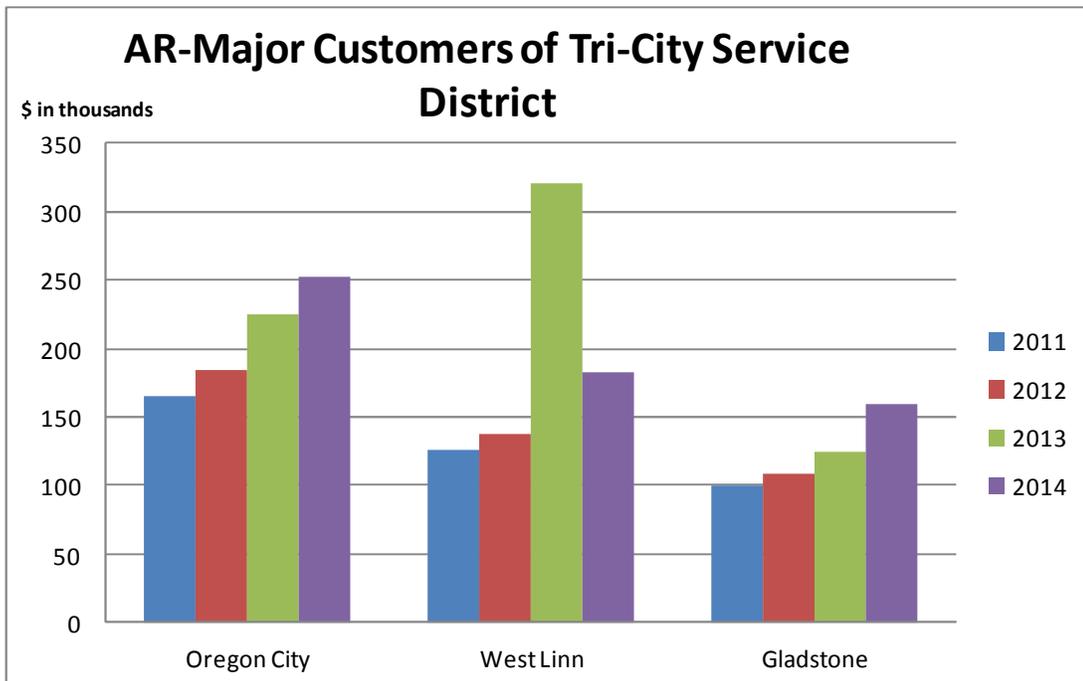
The financial operations of the District are primarily related to the wholesale transmission and treatment of sanitary sewage.

	<u>Net Position</u>		
	(In Thousands of Dollars)		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 8,391	\$ 8,475	\$ 8,457
Non-current assets - restricted	1,062	825	780
Capital assets, net	<u>41,486</u>	<u>43,363</u>	<u>44,300</u>
Total assets	<u>50,939</u>	<u>52,663</u>	<u>53,537</u>
Current liabilities	469	661	388
Long term liabilities	<u>54</u>	<u>107</u>	<u>157</u>
Total liabilities	<u>523</u>	<u>768</u>	<u>545</u>
Net investment in capital assets	41,380	43,207	44,095
Restricted for capital projects	1,007	770	724
Restricted for debt service	55	55	55
Unrestricted	<u>7,974</u>	<u>7,863</u>	<u>8,118</u>
Total net position, end of period	<u><u>\$ 50,416</u></u>	<u><u>\$ 51,895</u></u>	<u><u>\$ 52,992</u></u>

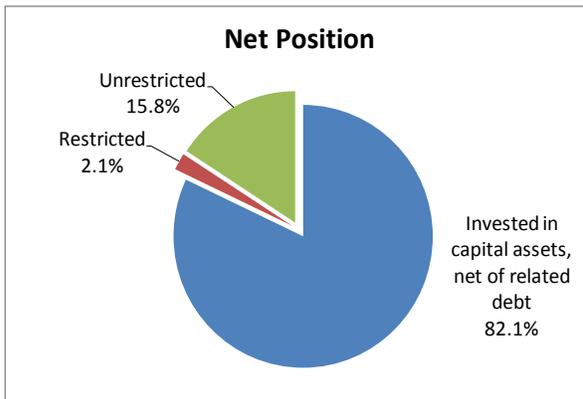
TRI-CITY SERVICE DISTRICT
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2014

Financial Analysis (Continued)

Current assets decreased by \$84. Pooled cash and investments were up by \$65 while accounts receivable (AR) decreased by \$136. AR for the three cities, which comprise the District, has declined this year because in 2013 West Linn's accounts receivable was unusually large as the City owed two months of sewer bills, while at the end of 2014 they only owed one month.



Total Net Position decreased by \$1,479. Capital assets decreased by \$1,877 and account for the majority of this change.

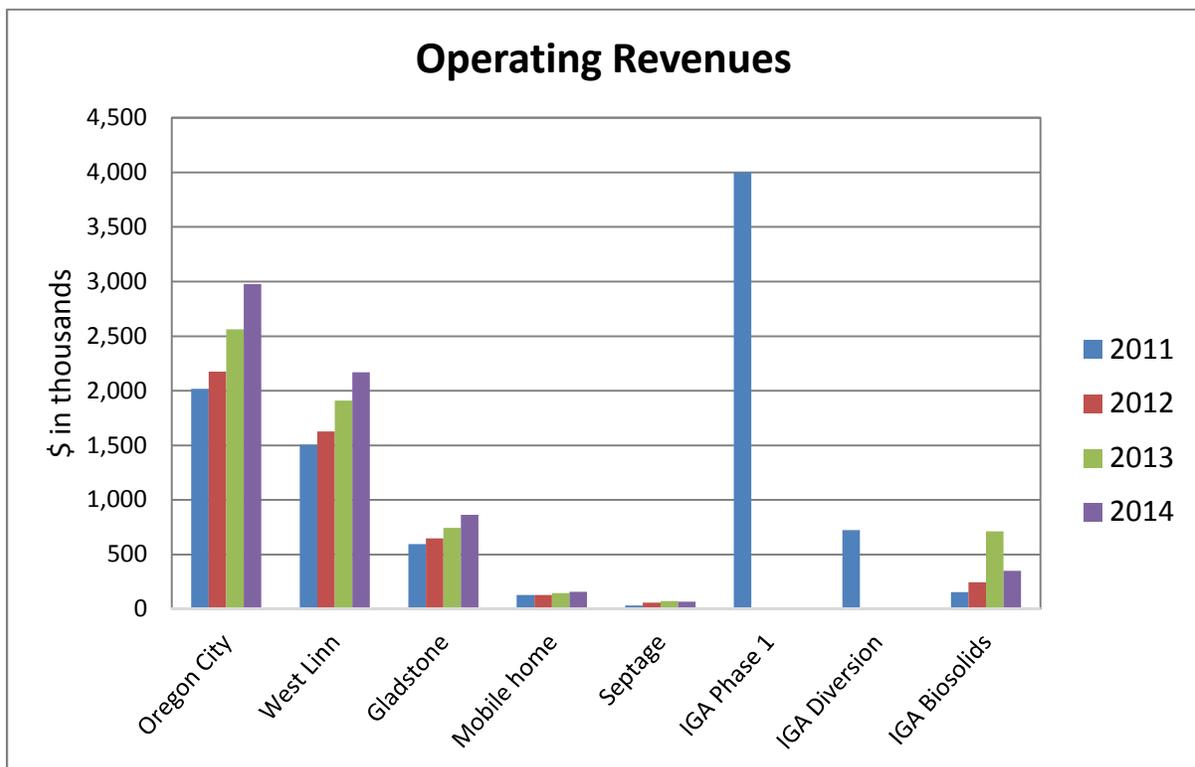


The majority of net position items are capital assets, represented by treatment facilities, land, conveyance systems, buildings, office equipment and vehicles. Restricted assets relate to the state loan and system development charges. Unrestricted assets account for 15.8% of net position. These items have no external restriction concerning their use or function.

TRI-CITY SERVICE DISTRICT
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2014

Financial Analysis (Continued)

Total operating revenue increased by \$427, an increase of 6.7%. Sewerage charges increased by \$797 while intergovernmental revenue decreased by \$363. This follows an increase in 2013 total operating revenue of \$1,443 or 29.3%. In fiscal year 2013, sewerage revenues increased by \$794 while intergovernmental revenue increased by \$465. The fluctuation in intergovernmental revenue relates to the payment by CCSD No. 1 to the District for dewatering of biosolids at the Tri-Cities plant. In 2014 the rate per gallon treated for use of the centrifuge decreased, resulting in the decline in intergovernmental revenue. In 2013 the centrifuge was in operation for the entire year at a higher treatment rate, while in 2012 the centrifuge began operations in February. See Note 6 to the financial statements for further information.

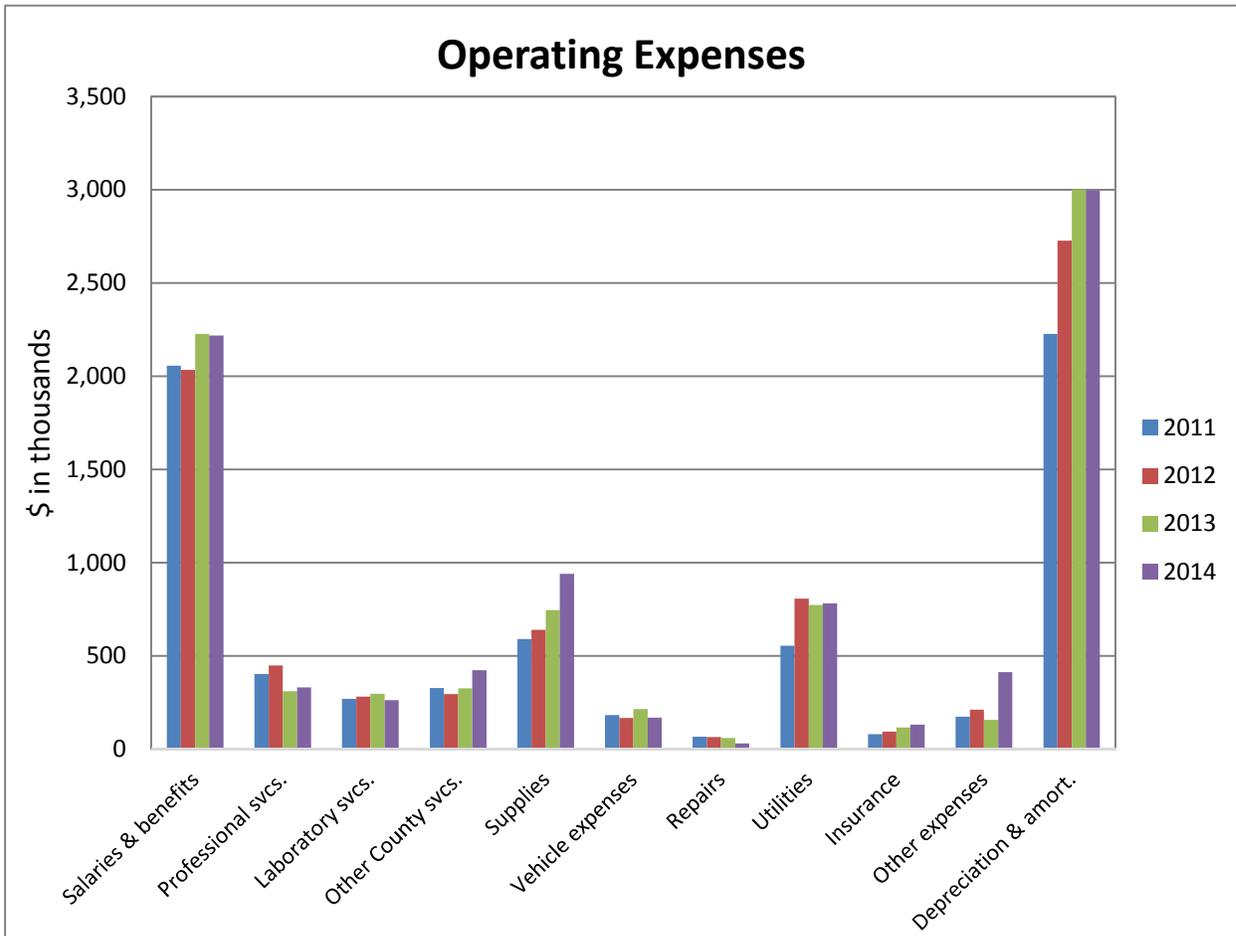


Sewerage charges increased in 2014 primarily due to a user rate increase. Sewer rates increased in fiscal year 2014, from \$15.35 per Equivalent Dwelling Unit (EDU) in 2013 to \$17.35 per EDU in 2014, an increase of 13.0%. In the graph above, sewerage charges are reflected in the revenue from the cities and mobile home parks; Intergovernmental revenue is represented by the IGAs; and Septage is a part of Other operating revenue.

TRI-CITY SERVICE DISTRICT
 (A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2014

Financial Analysis (Continued)

Intergovernmental revenues primarily include revenues from CCSD No. 1 to treat biosolids as specified in an IGA. 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 2014 CCSD No. 1 paid the District \$349. See Note 6 to the financial statements for further information.



Total operating expenses in fiscal year 2014 increased by \$466 or 5.7%. Other County services increased \$96. Supplies increased by \$194, due to an increase in chemical costs and the cost of miscellaneous equipment and tools. Other expenses increased by \$256.

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2014

Financial Analysis (Continued)

The following table offers a comparison of revenues, expenses and changes in net position for the years ended June 30, 2014, 2013 and 2012:

Changes in Net Position

(In Thousands of Dollars)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Sewerage charges	\$ 6,188	\$ 5,392	\$ 4,598
Other operating revenues	599	968	319
Operating revenues	<u>6,787</u>	<u>6,360</u>	<u>4,917</u>
Contracted salaries and benefits	2,218	2,227	2,033
Material and services	6,473	5,998	5,732
Operating expenses	<u>8,691</u>	<u>8,225</u>	<u>7,765</u>
Operating loss	<u>(1,904)</u>	<u>(1,865)</u>	<u>(2,848)</u>
Interest income	27	44	38
Interest expense	(5)	(7)	(10)
Gain (loss) on disposal of capital assets	(48)	(185)	46
Nonoperating revenue (expense)	<u>(26)</u>	<u>(148)</u>	<u>74</u>
Loss before contributions	<u>(1,930)</u>	<u>(2,013)</u>	<u>(2,774)</u>
Contributions	<u>451</u>	<u>916</u>	<u>643</u>
Change in net position	<u>\$ (1,479)</u>	<u>\$ (1,097)</u>	<u>\$ (2,131)</u>

Operating expenses increased in fiscal year 2013 by \$460 or 5.9% over fiscal year 2012. Salaries, other County Services, supplies, and depreciation expense were higher in 2013.

In 2014 nonoperating revenue (expense) increased by \$122. Fewer construction projects were expensed in fiscal year 2014, accounting for this difference.

Total contributions decreased by \$465, connection charges decreased in Oregon City.

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2014

Capital Asset and Debt Analysis

The District's net capital assets decreased by \$1,877 or 4.3% in fiscal year 2014. From 2012 to 2013 net capital assets decreased \$937. For 2014 plant and equipment, net decreased by \$1,433.

Long term liabilities consist of the outstanding State Revolving Loan. The loan decreased by \$52 in 2014 and \$50 in 2013.

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, 2011 the rate was \$13.35 per EDU, changed to \$15.35 effective July 1, 2012, and changed to \$17.35 effective July 1, 2013. The most recent budget, adopted in June of 2014, established a rate of \$19.00 per EDU for the cities of West Linn and Gladstone, an increase of 9.5%. A rate of \$20.76 per EDU was established for the city of Oregon City. This was done to raise additional funds to pay Oregon City its new Right of Way (ROW) fee that it began charging the District in February of 2014. This higher rate will also provide additional funds to the District to repay it for the ROW fee charged in fiscal year 2014. Considering the operating loss in 2014 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 \$21.10, \$17.08, and \$7.87 per month per EDU, respectively, to the District's \$17.35/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, 2014

Economic Factors and Next Year's Budget

Growth in the customer base in fiscal year 2013-14 was within range of the projected growth rate from the PSU study. EDUs increased by 0.9% in the three cities.

The budget for fiscal year 2014-15 represents a 5.7% increase over the budget for fiscal year 2013-14. Sewer treatment revenues are expected to rise due to the increases in rates discussed above. 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 2013-14 were \$706 under budget or 11%. The District budgeted for a large solids handling planning process that was postponed. For more details see the Supplementary Information section.

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 and the permit should allow the District to avoid substantial future costs. A remedial investigation and feasibility analysis to deal with site contamination from historical operations at the site has been recently completed. Because the reports revealed minimal pollutant levels, CCSD No. 1 and the District will now be able to move forward with planning efforts for the cleanup rather than pursue additional studies.

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 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.

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Basic Financial Statements



TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Pooled cash and investments	\$ 7,518,742	\$ 7,453,341
Accounts receivable	833,484	969,496
Interest receivable	5,774	7,547
Property taxes receivable	941	1,047
Prepaid expenses	31,862	43,349
Total current assets	8,390,803	8,474,780
Non-current assets:		
Pooled cash and investments - restricted	1,062,390	824,911
Capital assets:		
Land, easements and construction in progress	3,884,270	4,328,068
Plant and equipment, net	37,602,302	39,035,478
Total capital assets	41,486,572	43,363,546
Total noncurrent assets	42,548,962	44,188,457
TOTAL ASSETS	50,939,765	52,663,237
LIABILITIES		
Current liabilities:		
Accounts payable	358,714	581,324
Due to Clackamas County	55,846	26,930
State revolving loan payable	52,322	50,300
Accrued interest payable, payable from restricted assets	2,124	3,125
Total current liabilities	469,006	661,679
Long term debt, net of current portion:		
State revolving loan	54,426	106,748
TOTAL LIABILITIES	523,432	768,427
NET POSITION		
Net investment in capital assets	41,379,824	43,206,498
Restricted for capital projects	1,007,338	769,695
Restricted for debt service	55,052	55,216
Unrestricted	7,974,119	7,863,401
TOTAL NET POSITION	\$ 50,416,333	\$ 51,894,810

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, 2014 and 2013

	2014	2013
Operating revenues:		
Sewerage charges	\$ 6,188,372	\$ 5,391,483
Intergovernmental revenue	348,655	711,756
Other operating revenues	250,163	256,369
Total operating revenues	6,787,190	6,359,608
Operating expenses:		
Contracted salaries and benefits	2,218,110	2,226,661
Professional services	330,236	310,564
Laboratory services	263,337	295,917
Other County services	421,671	325,194
Supplies	939,592	745,411
Vehicle expenses	167,553	214,779
Repairs and maintenance	29,625	59,547
Utilities	781,182	773,434
Insurance	131,435	116,224
Other expenses	412,011	156,102
Depreciation and amortization	2,995,897	3,001,195
Total operating expenses	8,690,649	8,225,028
Operating loss	(1,903,459)	(1,865,420)
Nonoperating revenue (expense):		
Interest income	27,246	43,813
Interest expense	(5,084)	(7,190)
Loss on disposal of capital assets	(48,557)	(184,640)
Total nonoperating revenue (expense)	(26,395)	(148,017)
Loss before contributions	(1,929,854)	(2,013,437)
Contributions:		
Connection charges	451,377	915,902
Change in net position	(1,478,477)	(1,097,535)
Net position - beginning of year	51,894,810	52,992,345
Net position - end of year	\$ 50,416,333	\$ 51,894,810

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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Received from customers	\$ 6,618,648	\$ 5,861,570
Payments to suppliers for goods and services	(2,797,661)	(2,408,678)
Payments to related entities for services	(2,849,958)	(2,822,575)
Other operating revenue	250,163	256,369
Net cash from operating activities	1,221,192	886,686
Cash flows from capital and related financing activities:		
State loan principal paid	(50,300)	(48,357)
State loan interest paid	(6,085)	(8,153)
Connection charges collected	505,768	955,250
Collection of property taxes	106	137
Acquisition of capital assets, net of dispositions	(1,396,820)	(2,003,181)
Net cash from capital and related financing activities	(947,331)	(1,104,304)
Cash flows from investing activities:		
Interest received	29,019	47,299
Net increase (decrease) in pooled cash and investments	302,880	(170,319)
Pooled cash and investments, beginning of year	8,278,252	8,448,571
Pooled cash and investments, end of year ⁽¹⁾	\$ 8,581,132	\$ 8,278,252
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (1,903,459)	\$ (1,865,420)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	2,995,897	3,001,195
Changes in assets and liabilities:		
Decrease (increase) in sewerage charges and other receivables	81,621	(241,669)
Decrease (increase) in prepaid expenses	11,487	(34,393)
Increase in accounts payable and Due to Clackamas County	35,645	26,974
Total adjustments	3,124,650	2,752,106
Net cash from operating activities	\$ 1,221,191	\$ 886,686
⁽¹⁾ Pooled cash and investments are reflected on the Statements of Net Position as follows:		
Current assets - unrestricted	\$ 7,518,742	\$ 7,453,341
Non-current assets - restricted	1,062,390	824,911
	\$ 8,581,132	\$ 8,278,252

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, 2014 and 2013

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, 2014.

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, 2014 and 2013

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, 2014. 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.

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.

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.

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

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

Capital Assets – Continued:

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 2014 and 2013, 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 projects of \$1,007,338 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.

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

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

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. During the fiscal year, the District made an appropriation transfer from contingency to materials and services in the Sanitary Sewer Fund in the amount of \$300,000. 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 significant reduction in insurance coverage has occurred in the current year for any category of risk.

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

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

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, 2014, the District implemented the following GASB pronouncements:

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

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

GASB Statement No. 66, *Technical Corrections*

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

GASB Statement No. 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.

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

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

Future Adoption of GASB Pronouncements

The following GASB pronouncement has been issued, but is not yet effective at June 30, 2014:

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.

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 pronouncement will have a significant financial impact to the District or in issuing its financial statements.

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, 2014 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 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+.

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

2. Pooled Cash and Investments - Continued:

Custodial Credit Risk

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.

3. Accounts Receivable:

Amounts are comprised of the following:

	2014	2013
Sewerage charges	\$ 613,685	\$ 692,542
Connection charges from cities	31,491	85,882
Pump station charges	2,318	1,978
Intergovernmental agreement and miscellaneous receivables	185,990	189,094
	\$ 833,484	\$ 969,496

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

4. Capital Assets:

Changes in capital assets for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Transfers	Deletions	Balance June 30, 2014
Capital assets not being depreciated:					
Land and easements	\$ 3,514,699	\$ -	-	-	\$ 3,514,699
Construction in progress	813,369	1,181,900	(1,572,027)	(53,671)	369,571
Total capital assets, not being depreciated	4,328,068	1,181,900	(1,572,027)	(53,671)	3,884,270
Capital assets being depreciated and amortized:					
Intangibles	1,040,218	-	-	-	1,040,218
Collection plant	20,200,962	-	11,201	-	20,212,163
Pumping plant	4,548,783	-	314,647	-	4,863,430
Treatment plant	57,088,865	-	887,580	(13,687)	57,962,758
General plant	7,664,033	-	358,599	(120,333)	7,902,299
Total capital assets being depreciated and amortized	90,542,861	-	1,572,027	(134,020)	91,980,868
Less accumulated depreciation and amortization for:					
Intangibles	(1,040,216)	-	-	-	(1,040,216)
Collection plant	(8,865,386)	(434,429)	-	-	(9,299,815)
Pumping plant	(3,153,003)	(88,512)	-	-	(3,241,515)
Treatment plant	(33,870,029)	(2,147,620)	-	4,381	(36,013,268)
General plant	(4,578,749)	(325,336)	-	120,333	(4,783,752)
Total accumulated depreciation and amortization	(51,507,383)	(2,995,897)	-	124,714	(54,378,566)
Total capital assets being depreciated and amortized, net	39,035,478	(2,995,897)	1,572,027	(9,306)	37,602,302
Total capital assets, net	\$ 43,363,546	\$ (1,813,997)	\$ -	\$ (62,977)	\$ 41,486,572

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

4. Capital Assets - Continued:

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
Total capital assets, not being depreciated	3,345,674	2,251,562	(1,083,804)	(185,364)	4,328,068
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
Total capital assets being depreciated and amortized	89,491,881	-	1,083,804	(32,824)	90,542,861
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)
Total accumulated depreciation and amortization	(48,537,008)	(3,001,195)	-	30,820	(51,507,383)
Total capital assets being depreciated and amortized, net	40,954,873	(3,001,195)	1,083,804	(2,004)	39,035,478
Total capital assets, net	\$ 44,300,547	\$ (749,633)	\$ -	\$ (187,368)	\$ 43,363,546

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

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 \$50,300 and \$48,357 were due in 2014 and 2013, 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, 2012	\$	205,405
Payments		<u>(48,357)</u>
Balance July 1, 2013		157,048
Payments		<u>(50,300)</u>
Balance June 30, 2014		106,748
Current portion		<u>(52,322)</u>
Long-term portion	\$	<u><u>54,426</u></u>

This loan contains certain financial covenants. As of June 30, 2014, Management believes the District was in compliance with these covenants.

Future maturities are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Admin. Fees</u>	<u>Total</u>
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>\$ 106,748</u>	<u>\$ 5,363</u>	<u>\$ 541</u>	<u>\$ 112,652</u>

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

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 \$2,890,582 and \$2,832,691 for fiscal years 2014 and 2013, respectively. At June 30, related party balances amounted to \$55,846 and \$26,930 for 2014 and 2013, respectively.

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.

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.

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

7. Commitments - Continued:

- 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:

	2014	2013
Sewerage user fees	\$ 6,007,072	\$ 5,219,664
Connection charges	449,357	895,216
Pump station maintenance charges	5,260	6,274
	\$ 6,461,689	\$ 6,121,154

The District is committed under contractual agreements for various multi-year contracts. The total contract costs are approximately \$1,123,000. As of June 30, 2014, approximately \$614,000 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.

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.

TRI-CITY SERVICE DISTRICT
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

9. Pollution Remediation - Continued:

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 Report and Human Health and Ecological Risk Assessments commissioned by WES on behalf of CCSD No. 1 and the District were accepted by DEQ on June 18, 2014. Because the reports revealed minimal pollutant levels, CCSD No. 1 and the District will now be able to move forward with planning efforts for the cleanup rather than pursue additional studies. A Contaminated Media Management Plan will be developed for DEQ review and approval by early spring 2015. At that time CCSD No. 1 and the District should be able to estimate clean up costs and finalize scheduling for the work. An estimated start date for construction is summer of 2015.

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, 2014
 (with comparative totals for the year ended June 30, 2013)

	2014			Variance with Final Budget Positive (Negative)	2013 Actual
	Original Budget	Final Budget	Actual		
REVENUES:					
Sewerage user charges	\$ 6,326,090	\$ 6,326,090	\$ 6,188,372	\$ (137,718)	\$ 5,391,484
Interest on investments	25,863	25,863	19,456	(6,407)	26,436
Pump station operation charges	6,000	6,000	5,260	(740)	6,274
Intergovernmental revenue	229,000	229,000	348,655	119,655	711,756
Miscellaneous	236,600	236,600	268,447	31,847	252,824
Total revenues	6,823,553	6,823,553	6,830,190	6,637	6,388,774
EXPENDITURES:					
Materials and services	6,401,215	6,701,215	5,743,345	957,870	5,282,274
Contingency	1,066,869	766,869	-	766,869	-
Total expenditures	7,468,084	7,468,084	5,743,345	1,724,739	5,282,274
Revenues over (under) expenditures	(644,531)	(644,531)	1,086,845	1,731,376	1,106,500
OTHER FINANCING USES:					
Transfers to other funds:					
State Revolving Loan Fund	(56,386)	(56,386)	(56,028)	358	(56,028)
Sanitary Sewer Construction Fund	(1,000,000)	(1,000,000)	(1,000,000)	-	-
Total transferred to other funds	(1,056,386)	(1,056,386)	(1,056,028)	358	(56,028)
Net change in fund balance	(1,700,917)	(1,700,917)	30,817	1,731,734	1,050,472
Fund balance - beginning as previously reported	5,172,597	5,172,597	5,695,882	523,285	4,720,299
Restatement *	-	-	-	-	(74,889)
Fund balance - beginning, as restated	5,172,597	5,172,597	5,695,882	523,285	4,645,410
Fund balance - ending	<u>\$ 3,471,680</u>	<u>\$ 3,471,680</u>	5,726,699	<u>\$ 2,255,019</u>	<u>\$ 5,695,882</u>
Adjustment to GAAP basis:					
Capital assets (net of accumulated depreciation)			41,486,572		
Interest receivable			3,708		
Net position - GAAP basis			<u>\$ 47,216,979</u>		

* Beginning Fund Balance was restated to reflect 2013 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, 2014
 (with comparative totals for the year ended June 30, 2013)

	2014		Variance with Final Budget Positive (Negative)	2013 Actual
	Original And Final Budget	Actual		
REVENUES:				
Connection charges	\$ 484,800	\$ 442,252	\$ (42,548)	\$ 915,901
Interest on investments	6,201	3,017	(3,184)	8,262
Total revenues	<u>491,001</u>	<u>445,269</u>	<u>(45,732)</u>	<u>924,163</u>
EXPENDITURES:				
Capital Outlay	911,000	262,016	648,984	918,166
Contingency	<u>227,750</u>	<u>-</u>	<u>227,750</u>	<u>-</u>
Total expenditures	<u>1,138,750</u>	<u>262,016</u>	<u>876,734</u>	<u>918,166</u>
Revenues over (under) expenditures	<u>(647,749)</u>	<u>183,253</u>	<u>831,002</u>	<u>5,997</u>
Net change in fund balance	<u>(647,749)</u>	<u>183,253</u>	<u>(831,002)</u>	<u>5,997</u>
Fund balance - beginning as previously reported	1,240,295	855,576	384,719	1,306,264
Restatement *	<u>-</u>	<u>-</u>	<u>-</u>	<u>(456,685)</u>
Fund balance - beginning, as restated	<u>1,240,295</u>	<u>855,576</u>	<u>384,719</u>	<u>849,579</u>
Fund balance - ending	<u>\$ 592,546</u>	1,038,829	<u>\$ (446,283)</u>	<u>\$ 855,576</u>
Adjustment to GAAP basis:				
Interest receivable		<u>846</u>		
Net position - GAAP basis		<u>\$ 1,039,675</u>		

* Beginning Fund Balance was restated to reflect 2013 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, 2014
 (with comparative totals for the year ended June 30, 2013)

	2014		Variance with Final Budget Positive (Negative)	2013 Actual
	Original And Final Budget	Actual		
REVENUES:				
Interest on investments	\$ 293	\$ 195	\$ (98)	\$ 319
EXPENDITURES:				
Principal	50,301	50,301	-	48,357
Interest	6,086	6,086	-	8,153
Total expenditures	56,387	56,387	-	56,510
Revenues over (under) expenditures	(56,094)	(56,192)	(98)	(56,191)
OTHER FINANCING SOURCES:				
Transfer from other funds:				
General Fund	56,386	56,028	(358)	56,028
Net change in fund balance	292	(164)	(456)	(163)
Fund balance - beginning as previously reported	58,536	55,215	(3,321)	58,724
Restatement *	-	-	-	(3,346)
Fund balance - beginning, as restated	58,536	55,215	(3,321)	55,378
Fund balance - ending	\$ 58,828	55,051	\$ (3,777)	\$ 55,215
Adjustment to GAAP basis:				
Notes and loans payable		(106,747)		
Interest payable		(2,124)		
Interest receivable		37		
Net position - GAAP basis		\$ (53,783)		

* Beginning Fund Balance was restated to reflect 2013 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, 2014
 (with comparative totals for the year ended June 30, 2013)

	2014		Variance with Final Budget Positive (Negative)	2013 Actual
	Original And Final Budget	Actual		
REVENUES:				
Miscellaneous revenue	\$ -	\$ -	\$ -	\$ 1,500
Interest on investments	9,745	6,353	(3,392)	12,282
Total revenues	9,745	6,353	(3,392)	13,782
EXPENDITURES:				
Capital Outlay	1,350,000	871,291	478,709	1,274,958
Contingency	337,500	-	337,500	-
Total expenditures	1,687,500	871,291	816,209	1,274,958
Revenues over (under) expenditures	(1,677,755)	(864,938)	812,817	(1,261,176)
OTHER FINANCING SOURCES:				
Transfer from other funds:				
General Fund	1,000,000	1,000,000	-	-
Net change in fund balance	(677,755)	135,062	812,817	(1,261,176)
Fund balance - beginning as previously reported	1,949,096	2,077,216	128,120	3,773,230
Restatement *	-	-	-	(434,838)
Fund balance - beginning	1,949,096	2,077,216	(128,120)	3,338,392
Fund balance - ending	\$ 1,271,341	2,212,278	\$ 940,937	\$ 2,077,216
Adjustment to GAAP basis:				
Interest receivable		1,184		
Net position - GAAP basis		\$ 2,213,462		

* Beginning Fund Balance was restated in 2013 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, 2014

Fund	Description	Net Position GAAP Basis
201	General Fund	\$ 47,216,979
202	System Development Charge Fund	1,039,675
205	State Revolving Loan Fund	(53,783)
209	Construction Fund	2,213,462
	Total Net Position	\$ 50,416,333

Statistical Section



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STATISTICAL SECTION

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

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how financial performance has changed over time.	34
Revenue Capacity These schedules contain information to help the reader assess the District's most significant revenue source, user fees.	36
Debt Capacity 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
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	40
Operating Information 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
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
2014	41,379,824	1,062,390	7,974,119	50,416,333

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating revenues:										
Sewerage charges	\$ 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	\$ 6,188,372
Pump station maintenance charges	10,415	10,278	517,773	584,680	692,530	1,125,220	4,877,816	246,358	711,756	348,655
Intergovernmental revenues	451,950	459,455	57,147	48,814	56,333	566,542	(421,824)	72,597	256,369	250,163
Other operating revenues	52,692	53,317	4,380,677	4,826,828	4,796,638	5,842,286	8,718,035	4,916,873	6,359,608	6,787,190
Total operating revenues	3,996,768	4,096,963	8,804,354	9,663,564	9,793,281	11,664,632	17,363,724	10,733,746	12,419,156	13,574,370
Operating expenses:										
Contracted salaries and benefits	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	2,218,110
Professional services	161,864	149,170	130,185	183,130	95,408	307,227	402,191	441,162	310,564	330,236
Laboratory services	-	-	229,499	253,990	263,613	268,635	269,265	290,332	295,917	263,337
Other County services	-	-	230,536	277,522	291,847	293,702	327,698	295,387	325,194	421,671
Supplies	568,169	592,609	484,792	506,603	685,573	613,043	590,176	638,717	745,411	939,592
Vehicle expenses	130,858	162,018	172,449	194,305	119,498	125,979	183,220	166,813	214,779	167,553
Repairs and maintenance	-	-	80,680	89,451	87,762	68,361	65,991	63,893	59,547	29,625
Utilities	504,207	590,574	618,531	668,224	711,955	699,809	554,556	806,086	773,434	781,182
Insurance	79,577	76,598	73,205	75,889	80,377	80,846	79,800	93,254	116,224	131,435
Other expenses	221,008	172,853	144,100	147,498	190,811	196,324	173,533	211,398	156,102	412,011
Depreciation and amortization	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	2,995,897
Total operating expenses	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	8,690,649
Operating income (loss)	(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)	(1,903,459)
Nonoperating revenue (expense):										
Interest income	145,920	407,903	432,080	386,854	228,743	44,854	56,316	38,236	43,813	27,246
Interest expense	(22,639)	(21,013)	(19,321)	(17,561)	(15,731)	(13,827)	(11,847)	(9,787)	(7,190)	(5,084)
Property taxes	286	(5,255)	(396)	(44)	-	-	-	-	-	-
Grants	-	-	-	-	1,500	-	-	-	-	-
Gain (loss) on disposal of capital assets	-	(83,435)	(872,339)	(1,833,836)	(17,178)	(235,867)	(18,154)	46,095	(184,640)	(48,557)
Total nonoperating revenue (expense)	123,567	286,200	(459,976)	(1,464,587)	197,334	(204,860)	26,315	74,544	(148,017)	(26,395)
Income (loss) before contributions	(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)	(1,929,854)
Contributions:										
Connection charges	754,739	686,309	938,495	516,098	386,182	447,638	257,365	643,467	915,902	451,377
Capital contributions	-	44,034	244,934	78,391	-	-	-	-	-	-
Total contributions	754,739	730,343	1,183,429	594,489	386,182	447,638	257,365	643,467	915,902	451,377
Change in net position	\$ (903,898)	\$ (534,233)	\$ (819,693)	\$ (2,225,964)	\$ (1,098,006)	\$ (662,010)	\$ 2,072,705	\$ (2,130,552)	\$ (1,097,535)	\$ (1,478,477)

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Sewerage Rate										
Monthly service charge	\$ 10.60	\$ 10.60	\$ 11.10	\$ 11.65	\$ 11.65	\$ 12.00	\$ 12.35	\$ 13.35	\$ 15.35	\$ 17.35
Type of Customer										
Sewerage Charges										
Cities ⁽¹⁾	\$ 3,326,211	\$ 3,406,106	\$ 3,688,017	\$ 4,041,439	\$ 3,899,616	\$ 4,007,261	\$ 4,117,476	\$ 4,447,446	\$ 5,219,665	\$ 6,007,072
Residential	108,355	127,140	117,360	129,096	129,954	130,416	130,977	131,304	149,100	159,945
Commercial	25,564	26,035	14,099	16,265	12,199	7,303	8,046	13,372	16,418	14,551
Industrial	16,530	11,592	1,240	990	462	-	-	-	-	-
Other	5,051	5,040	5,041	5,544	5,544	5,544	5,544	5,796	6,300	6,804
Total	\$ 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	\$ 6,188,372

Source: District's Records

⁽¹⁾ 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⁽¹⁾
Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Type of Customer										
Wholesale:										
City of Oregon City	\$ 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	\$ 2,975,532
City of West Linn	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	2,169,789
City of Gladstone	413,726	480,134	531,826	558,619	559,556	578,879	596,180	645,610	745,464	861,751
Total	\$ 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	\$ 6,007,072

Source: District's Records

⁽¹⁾ 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
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	0.006	3
2013	157,048	N/A	2
2014	106,748	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, 2014

Governmental Unit	Debt Outstanding	Percent Overlapping	Overlapping General Obligation Bonded Debt
Debt repaid with property taxes			
City of Oregon City	\$ 1,095,000	88.95 %	\$ 974,003
City of West Linn	18,045,000	99.99	18,043,196
Clackamas Community College	24,370,000	19.42	4,732,654
Clackamas County	103,805,000	14.26	14,802,593
Clackamas County Rural Fire Protection District #1	910,000	13.69	124,579
Clackamas County School District #115 (Gladstone)	48,373,647	66.50	32,168,475
Clackamas County School District #12 (North Clackamas)	327,271,595	0.25	818,179
Clackamas County School District #3J (West Linn/Wilsonville)	186,589,645	47.36	88,368,856
Clackamas County School District #62 (Oregon City)	79,290,000	50.95	40,398,255
Clackamas County School District #7J (Lake Oswego)	99,037,049	0.38	376,341
Metro	222,955,000	3.51	7,825,721
Portland Community College	167,875,000	0.02	33,575
Tualatin Valley Fire & Rescue District	42,600,000	6.04	2,573,040
Other Debt			
City of Gladstone	1,815,000	67.31	1,221,677
City of Oregon City	15,085,000	88.95	13,418,108
Clackamas Community College	45,635,000	19.42	8,862,317
Clackamas County	1,400,000	14.26	199,640
Clackamas County Education Service District	24,190,000	15.07	3,645,433
Clackamas County Rural Fire Protection District #1	18,830,000	13.69	2,577,827
Metro	31,865,000	3.51	1,118,462
North Clackamas Parks & Rec District	10,610,000	0.00	
Port of Portland	66,738,667	3.23	2,155,659
Portland Community College	318,425,000	0.02	63,685
Tualatin Valley Fire & Rescue District	13,000,000	6.04	785,200
Total overlapping debt	\$ 1,869,810,603		\$ 245,287,475

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 ^{1, 2}	Per Capita Personal Income ^{1, 2}	Unemployment Rate (PMSA)
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	3,330,043,990	48,286	7.8
2013	69,365	N/A	N/A	7.2
2014	70,310	N/A	N/A	6.1

N/A: Not available

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

¹2012 Personal Income and Per Capita Personal Income statistics revised May, 2014.

²Figures are for calendar year; Personal Income and Per Capita Income for 2013 and 2014 are not available.

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

PRINCIPAL EMPLOYERS ⁽¹⁾
Current Year and Nine Years Ago

Employer	2014			2005		
	Employees	Rank	Percentage of Total (2)	Employees	Rank	Percentage of Total (2)
Intel Corp.	16,700	1	.02 %	14,363	1	.01 %
Providence Health System	14,132	2	.01	13,753	2	.01
Oregon Health & Sciences University	14,106	3	.01	11,400	3	.01
U.S. Federal Govt.	13,900	4	.01			
Fred Meyer Stores	10,176	5	.01	5,300	9	.01
Kaiser Foundation Health Plan of the Northwest	9,896	6	.01	7,433	5	.01
Legacy Health System	9,835	7	.01	7,907	4	.01
City of Portland	9,318	8	.01	5,355	8	.01
State of Oregon	7,559	9	.01			
Nike Inc.	7,000	10	.01	5,742	7	.01
Portland SD				6,700	6	.01
Safeway, Inc., Portland Division				5,282	10	.01
Total	112,622		0.11 %	83,235		0.10 %

Sources:

(1) Statistics are the latest available data published in the Portland Business Journal *Book of Lists 2014* and *Book of Lists 2005*. 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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Business & Financial Services	3	1	1	1	2	2	4	4	8	6
Asset & Capacity Management	2	2	2	2	1	1	1	1	3	2
Water Quality Services	16	16	13	14	14	15	14	13	15	14
Environmental Monitoring Services	2	2	4	4	4	3	4	3	2	2
Total	<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>	<u>24</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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Business-type activities:										
Sewerage charges:										
Monthly service charge	\$ 10.60	\$ 10.60	\$ 11.10	\$ 11.65	\$ 11.65	\$ 12.00	\$ 12.35	\$ 13.35	\$ 15.35	\$ 17.35
Total amount collected	\$ 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	\$ 6,188,372
Percentage increase/(decrease)	1.8	2.7	6.4	10.2	(3.5)	2.5	2.7	7.9	17.3	14.8
Connection fees/EDU										
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)	\$ 754,739	\$ 686,309	\$ 938,495	\$ 516,098	\$ 386,182	\$ 447,638	\$ 257,365	\$ 643,467	\$ 915,902	\$ 451,377
	9.0	(9.1)	36.7	(45.0)	(25.2)	15.9	(33.4)	150.0	42.3	(50.7)
Hydraulic treatment capacities										
(in million gallons/day)	11	11	11	11	11	11	11	11	11.9	11.9
Current flows	8.32	10.07	9.01	8.93	7.93	9.82	10.66	9.49	9.80	10.80
(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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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	17.25	17.25	17.25	17.25	17.25	17.25	17.25	17.25	17.25	19.07

In Fiscal Year 2013-14, this chart has been revised for prior year's miles of pipe data.

Source: District's records

Compliance Reports



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**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of County Commissioners of
Clackamas County, Oregon, as Governing Body of
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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 24, 2014.

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.

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(continued)**

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Moss Adams, LLP

Eugene, Oregon
November 24, 2014

**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, 2014, and have issued our report thereon dated November 24, 2014. 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
November 24, 2014

