

Comprehensive Annual Financial Report

For the fiscal years ended

June 20, 2014 and 2013



CLACKAMAS RIVER WATER

CLACKAMAS, OREGON

CLACKAMAS RIVER WATER
CLACKAMAS, OREGON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal years ended June 30, 2014 and 2013

Prepared by:

Clackamas River Water
Finance, Accounting and Customer Service Department

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CLACKAMAS RIVER WATER

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INTRODUCTORY SECTION



Clackamas River Water



November 13, 2014

Board of Commissioners of Clackamas River Water
Clackamas, Oregon

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for Clackamas River Water (CRW or the District) for the fiscal year ended June 30, 2014. This report was prepared by the District's Finance, Accounting and Customer Service (FACS) department. The District is responsible for the accuracy, completeness, and reliability of all data presented, and representations contained herein, based upon a comprehensive framework of internal controls established for this purpose. We believe the data presented is accurate in all material aspects and that the manner in which it is presented fairly discloses the financial position of CRW at June 30, 2014, and the results of operations for fiscal year 2013-2014.

Moss Adams, LLP, Certified Public Accountants, have issued an unmodified opinion on the District's financial statements for the fiscal year ended June 30, 2014. The independent auditor's opinion is located on page 1 in the Financial Section of this report.

Generally Accepted Accounting Principles in the United States of America (GAAP)

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the independent auditor's report on the financial statements.

Description of the Reporting Entity

This report includes all activities of CRW. The District is not a segment of the Clackamas County government, nor is it a component unit of any other government.

CRW was created on July 1, 1995, following consolidation of Clackamas Water District and Clairmont Water District. CRW operates as a domestic water supply district under provisions of Oregon Revised Statutes (ORS) Chapter 264. Clackamas Water District was originally formed in 1926 and took in the former Stanley Water District in 1979, followed by a merger with Barwell Park Water District in 1991. Clairmont was originally formed in 1959 and was merged with Redland and Holcomb-Outlook Water Districts in 1983. CRW has no potential component units.

A five member Board of Commissioners, elected at large to overlapping four-year terms, governs the District. The Board sets policy and appoints a General Manager, who is charged with management of the District.

The District's service area is in the southeastern section of the Portland metropolitan area, approximately 14 miles from downtown Portland. Access to the District is provided by four major highway systems: Interstate 205 and State Highways 212, 213 and 224. CRW's two service areas are located north and south of the Clackamas River

From the treatment plant, the District tests, treats and pumps water drawn from the Clackamas River to reservoir storage and then to customers through its distribution system. The service area north of the river is urbanized and is supplied water from the CRW treatment plant located along the river. Water from this plant is provided on a retail basis to direct users north of the river and to Sunrise Water Authority (SWA) on a wholesale basis.

The service area south of the Clackamas River is predominately rural. CRW buys the water necessary to serve that area from South Fork Water Board (SFWB) – jointly owned by the cities of Oregon City and West Linn and located in Oregon City. CRW had provided up to 30 percent of the required water from our well. The well was shut down in May 2013 to ensure the highest water quality for all customers in the south service area.

General Framework

CRW is organized into six departments. The six departments are the Board of Commissioners, Administration, Water Resources, Operations, Engineering and Finance, Accounting and Customer Service. For the fiscal year 2014-2015 budget year, CRW has an authorized 39.2 full-time equivalent positions, the same as in the prior year.

In addition to serving the customers of CRW, the District provides water quality laboratory testing services to other water providers, and shares GIS services with SWA through a memorandum of understanding.

CRW's primary sources of operating revenues are from the sale of water and related fees. For fiscal year 2013-2014 water sales accounted for 97.7 percent of total operating revenues, up from 96.5 percent in fiscal 2012-2013.

Economic Condition and Outlook

Preservation of a healthy financial condition and building upon it are primary goals of the District. Through consolidation, CRW has seen operational benefits due to economies of scale, elimination of redundant operations, and a better focus and impact on regional issues. The consolidation demonstrated to the public and surrounding agencies that such a cooperative "joining" benefits the area, as well as the participants, and has helped to lay the foundation for subsequent cooperative efforts.

In November 2013, CRW entered into an agreement with SWA to share resources for the benefit of both agencies and their customers, creating the Clackamas Regional Water Supply Commission (CRWSC). CRW has excess capacity at the water treatment plant and SWA has significant growth potential in their service area. CRW has agreed to set aside up to 10 million gallons per day (MGD) for use by SWA. SWA currently purchases 2.5 MGD from the CRW water treatment plant. Operating efficiencies can be gained by producing higher volumes of water. Other resources will also be shared to benefit from economies of scale. Internal expertise available at each entity will be shared where

appropriate to avoid costly external contracting. Integration efforts have begun and will proceed into the next few fiscal years.

The 1998 Water System Master Plan includes a host of water infrastructure improvements to be constructed over the next 20 years and the plan is reviewed annually to identify changes. Improvements will enhance service to existing residences and businesses, as well as prepare the system to serve new customers. The original listing of projects was valued at \$50.7 million in capital improvements to be constructed through fiscal year 2008. The 2005 Water System Master Plan Update incorporates recent changes and additional projects to the 1998 plan. Work is in progress to complete a new master plan by the December 31, 2015 due date.

Capital improvement projects within the 10-year financial plan are prioritized for inclusion in annual budgets. Revenues from system development charges (SDCs) have provided a substantial portion of funding for many of the CIP projects. SDCs are collected from each new service connection to the system. To help ensure that growth pays its fair share of improvements to the system, the board adopted a new schedule of charges in April 1998, which provides for future adjustments tied to price index changes. The SDCs were last updated using that methodology effective July 2014. Revenue from SDC's has been down in recent years due to limited infill potential in the District because of land use and zoning laws, so the reserve balance of the account has been reduced by planned expenditures for current CIP per the Water System Master Plan. The District is in the process of updating the SDC rate methodology.

Water system costs are influenced by several notable factors:

- Additional requirements contained in the 1996 reauthorization of the Federal Safe Drinking Water Act, include a new emphasis on source protection;
- Increased Federal and State regulation;
- Anticipated costs of storage and distribution facilities;
- Rehabilitation or replacement of other infrastructure as it reaches the end of its useful life;
- The desire to promote efficient use and prudent management of the water resource;
- The need to attract, train and retain a highly-skilled, competent workforce.

The Board periodically reviews rates, keeping conservation pricing in mind, to promote the efficient use of water resources. Customer water rate structures are designed to promote water conservation through increasing block rates. This pricing structure, along with an expanded effort to educate customers about efficient water use strategies, encourages prudent use of water resources and helps mitigate future needs for capacity expansion. The most recent rate increase was effective May 1, 2014, based upon a cost of service analysis and includes Board adopted rate increases through 2021.

We encourage our commercial accounts to promote conservation and discourage peak usage. Commercial rates include an annual calculation based on the average winter consumption (AWC) for each commercial customer to measure peak usage. When a commercial customer's bi-monthly consumption exceeds one and one-half times (1.5 times) their AWC, they are charged at a rate 24.5 percent higher than the lower 'block' rate for the volume used beyond 1.5 times the AWC.

CRW's overall system provides water to approximately 12,200 service connections. These connections serve residential areas, commercial establishments, industrial facilities, public facilities such as schools and churches, irrigators, and wholesale customers. The total CRW service area population is estimated to be approximately 50,000 people. Population in Clackamas County is expected to grow slowly at an

annual rate of one percent. The distribution of CRW's customers between urban and rural areas is two-thirds urban and one-third rural, consistent with the rest of the county.

CRW growth of new housing and business has slowed in recent years. Examples of growth that required new water services within CRW's boundary during the year include:

- 30 new domestic residential services
- 8 domestic commercial connections
- 4 fire service installations

Total new service connections were up by 11 connections over the prior year. Current year activity is also tracking higher indicating an improving economy. Factors that impact growth within CRW's service territory include National economic trends and Urban Growth Boundary adjustments by Metro and the Regional Government.

Household water usage has declined over the past decade as customers replace older fixtures and appliances with more efficient ones. The downward impact on CRW revenue due to conservation has been fairly significant, particularly when combined with slow economic growth.

CRW will continue to monitor these trends to assess potential impacts on its operations and customers. The District's diverse customer base, low level of long-term debt, strong financial position, and ability to adjust the timing of capital expenditures will assist in maintaining the District's strength.

CRW's wholesale water agreement with SWA provides for the supply of water for up to 20 years. Historically, wholesale customers have used nearly one-half of the water produced and provided about 20 percent of the District's water sales revenue. This trend is changing with our wholesale customers using close to one-third of the water sold and providing about nine percent of the District's water sales revenue during fiscal year 2013-2014.

Major Initiatives

Clackamas Regional Water Supply Commission was approved during fiscal year 2013-2014 under Oregon Revised Statutes (ORS) 190 for the sharing of services and resources between CRW and SWA. Implementation of the integration plan is in process and we anticipate benefits from economies of scale, efficiencies of operations, and effective utilization of the expertise resident in each organization.

Beyond the actions described earlier, CRW sustains the ideology held by the Clackamas Water District and Clairmont Water District in preparing for and sharing in the economic opportunities of the area. Examples of this include:

- Playing an active role in the regional water supply planning effort in conjunction with providers in the Portland region;
- Participating in and monitoring legislation affecting water service and delivery;
- Coordinating planning efforts for urban service in undeveloped areas designated for urban development by comprehensive land use plans;
- Leasing of available office space;
- Exploring options for efficiency of operations with additional neighboring entities;
- Anticipating future growth and expansion needs: in 1991, CRW purchased 25 acres of land adjacent to the current treatment plant property.

These and other activities, including efforts to influence protection and conservation of the watershed continue today. The District continues its role in regional water supply, participating in the Regional Water Providers Consortium and implementation of the Regional Water Supply Plan.

Preservation and enhancement of the distribution system is a continuing focus. The design of CRW's Master Plan, including capital improvements for all services areas, will enable CRW to maintain high levels of customer service and deliver quality drinking water. In FY 2013-2014, CRW spent over \$2,676,000 on its capital program, including work on the emergency generator and electrical upgrade project at the water treatment plant, numerous water line installations, and rehabilitation projects.

CRW has a long range plan that guides the Board and staff actions toward providing affordable, efficient, and reliable service. Part of that plan includes continued capital investment. In order to respond to system growth and provide dependable services, the plant and facilities must be maintained.

Fiscal Year 2014 in Review

During fiscal year 2013-2014, the District was engaged in various efforts focused on infrastructure improvement and maintenance, services to customers, and financial planning and management activities. The following are brief descriptions of other significant activities that are completed or underway.

1. *District Engineering Design and Construction Activity.* The District spent a portion of the CIP dollars on relocation of various waterlines related to state and county road work. The most significant portion was the Oregon Department of Transportation (ODOT) and Clackamas County activity at Highway 212/224 known as the JTA project. This project is ongoing. Portions of the project that are ODOT jurisdiction include partial reimbursement of CRW costs. The County activity does not include reimbursement. The District has also completed electrical upgrades at the water treatment plant to allow for construction of the emergency generator facility. And the District is working on Phase One and Two of the Carver Bridge project to connect water lines from the north service area to some customers within the south service area.
2. *Information Systems Network Infrastructure Upgrades.* In continuation of a project started in FY 2012-2013, CRW connected our administration offices with SWA offices via the Clackamas County fiber optic installation project, which connects more rural areas within the county. The project was completed in FY 2013-2014. Partnering with the County achieved significant savings and we have faster, more reliable connections between CRW and SWA facilities that enhance our integration and resource sharing.
3. *Water Rate Review and Analysis.* CRW completed an update of revenue requirements and a full cost of service rate study and benchmarking analysis during FY 2012-2013 as requested by the Citizen Rate Committee and the Budget Committee. The CRW Board reviewed and approved a rate structure for the next eight years to ensure sufficient resources for operations and capital improvements.
4. *Department of Environmental Quality (DEQ) 319 grant.* The 319 grant benefits CRW by identifying areas where septic systems in the watershed are failing. Areas with failing septic systems will be targeted for outreach and mitigation through the collaborative efforts of the Clackamas Regional Water Providers, DEQ, and the Clackamas Soil and Water Conservation District. Fixing leaky septic systems decreases the microbial pollution load to the Clackamas River, lowering the cost of treatment and making the water cleaner and safer.

Financial Information

1. *Controls.*

- a. Internal Controls: The District operates within a system of internal accounting controls established to provide reasonable assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements. All internal control evaluations are considered within these guidelines and those required by the outside auditor.

This internal control process allows CRW to prepare financial reports that conform to generally accepted accounting principles and in accordance with Oregon statutes. CRW will continue to evaluate and improve the internal and budgetary control process.

- b. Purchasing Controls: The CRW Board of Commissioners approved newly updated Local Contract Review Board rules (LCRB) at their meeting on November 14, 2013. These rules will continue to be updated as needed to maintain compliance with statutory requirements. The LCRB guide the procurement coordinator and all CRW staff in appropriate purchasing activity.
- c. Budgetary Controls: CRW maintains accounting records by fund. The funds are described in the Notes to the Basic Financial Statements. CRW prepares a budget annually by fund to control its fiscal year operations under the rules and statutes of the State of Oregon governing the budget process. The budget officer and District staff prepare a proposed detailed budget based on direction from the Board and submit it to a budget committee. The budget committee consists of the Board and five board-appointed individuals who reside within CRW boundaries. Following public notices published in newspapers, the committee meets. It may revise or approve the proposed budget in its public meetings. After the budget committee approves the proposed budget, the Board holds a public hearing on the approved budget. The Board adopts the budget and makes appropriations for all funds by major functional category. This allows CRW to expend funds for the fiscal year within the limits set by those appropriations. Appropriations adopted by the Board lapse at the end of the fiscal year.

CRW may adopt supplemental budgets to accommodate unexpected additional resources or major, unforeseen expenditure requirements. Adoption of a supplemental budget requires a similar process including hearings before the public, publication in newspapers, approval by the Board, and the formal adoption of appropriations. The Board may modify original and supplemental budgets, under specific statutory guidelines, through the use of specific appropriation transfers. During fiscal year 2014, the Board approved a supplemental budget of \$18,500 to reflect new revenue from an Urban Area Security Initiative grant program for the purchase of overland pipe that can be used for emergency water distribution. This supplemental budget increased the appropriation for Capital Outlay in the General fund by \$18,500. Additionally, the Board approved the creation of a new fund and associated budget transfer of \$1,000 to the CRWSC Activity Fund.

2. *Operations Policy.* It is District policy to operate the water system without property tax support. The two elements of this policy are that (1) the system is operated to provide service to its residents and customers based upon the cost of the service, and (2) bonds issued for major improvements to the system are retired with revenue from water sales. Thus, although it has the authority to do so and has previously levied a small tax to retire debt, CRW does not currently use property taxes to finance general operations.

The District's operations policy also stipulates periodic review of wholesale and retail rates to ensure uniformity between policy and financial conditions. In March of 2014 the Board approved an eight year rate plan to provide revenue sufficient to meet financial reserve policies approved by the Board. The rate increase was effective with the June 30, 2014 bills, just prior to the fiscal year end.

3. *Financial Goals and Policies.* The District maintains a set of financial goals and policies to guide the Board and management on decisions that involve significant financial outcomes. The goals and policies address financial planning including long-term forecasting, capital planning and funding, and budgeting.

Awards

Comprehensive Annual Financial Report. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to CRW for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012 and June 30, 2103. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

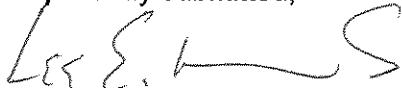
A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program requirements and will again submit it to the GFOA to determine its eligibility for another certificate.

Distinguished Budget Presentation Award. The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Distinguished Budget Presentation Award to CRW for its Adopted Budget for fiscal year beginning July 1, 2013. This award is the highest form of recognition in governmental budgeting and reflects a commitment by the governing body and staff to meet the highest principles of governmental budgeting. In order to receive the budget award, the entity must satisfy nationally recognized guidelines for effective budget presentation. The guidelines are designed to assess how well an entity's budget document serves as a policy document, financial plan, operational plan and a communications device. Budget documents must be rated proficient in all four categories, as well as fourteen mandatory criteria within those categories to receive the award.

Acknowledgements

The preparation of this report could not have been accomplished without the dedicated services of CRW's staff. We wish to express our appreciation to all employees who continue to maintain the accounting systems and participate in preparation of the audit. Finally, we wish to thank you, the members of the Board of Commissioners, for your interests and support in planning and conducting the financial operations of CRW in a responsible and progressive manner.

Respectfully submitted,

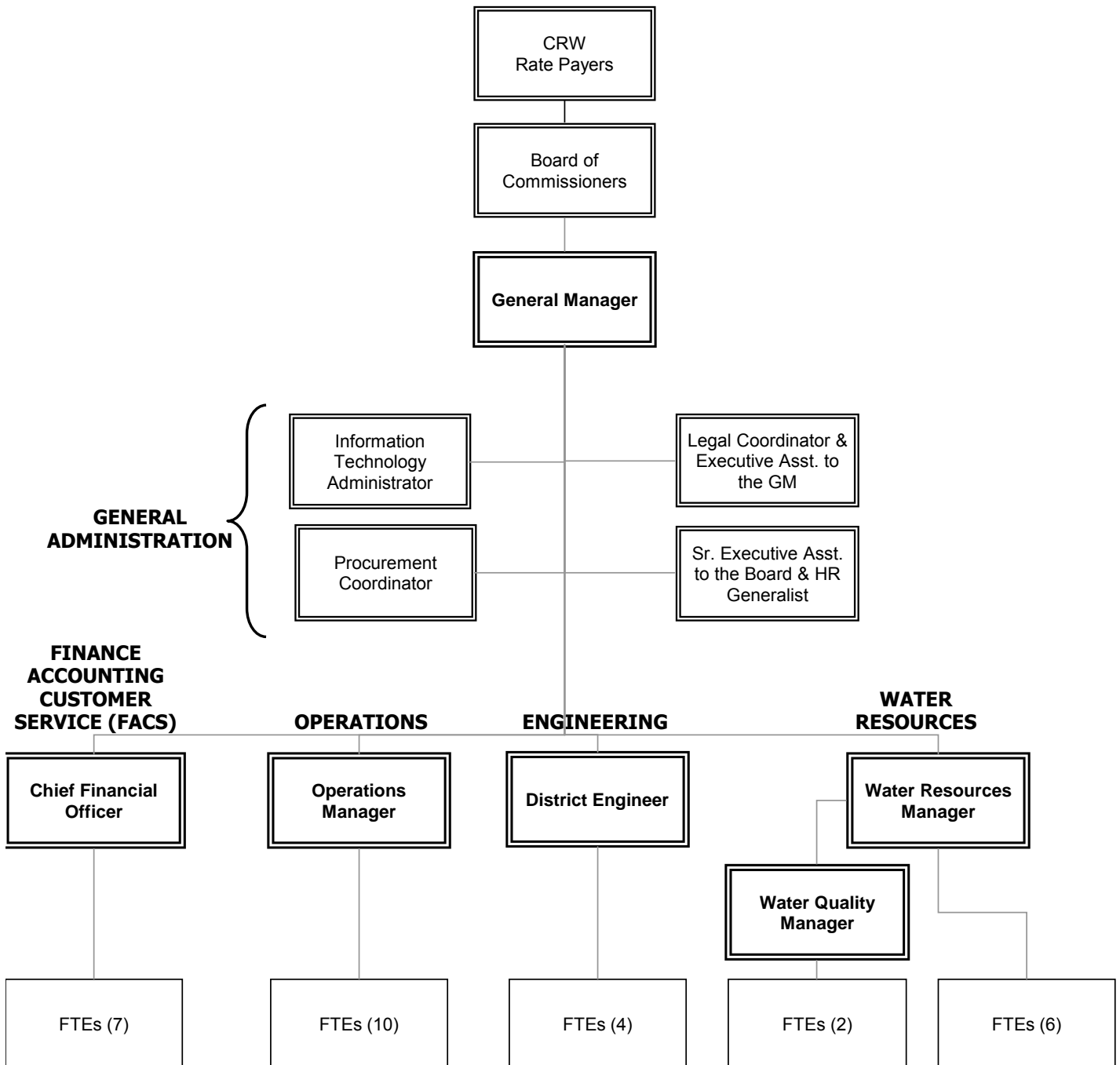


Lee E. Moore, Sr.
General Manager



Carol Bryck, CPFO, CFP
Chief Financial Officer

Organizational Structure



Double Lines = Non Represented Employees

Bold Lines = Managers

CLACKAMAS RIVER WATER
GOVERNING BODY UNDER ORS 264.410
BOARD OF COMMISSIONERS
16770 SE 82ND DRIVE
P.O. BOX 2439
CLACKAMAS, OREGON 97015

Commissioners as of June 30, 2014

Name	Term Expires
Larry Sowa, President	June 30, 2017
Kenneth Humberston, Secretary	June 30, 2017
Hugh Kalani, Treasurer	June 30, 2017
Grafton Sterling, Commissioner	June 30, 2015
David McNeel, Commissioner	June 30, 2015

Leadership Team

Lee E. Moore, Sr	General Manager
Carol Bryck	Chief Finance Officer
Robert George	District Engineer
Rob Cummings	Production Manager
Donn Bunyard	Operations Manager
Kham Keobounnam	Information Technology Manager
Adam Bjournstedt	Engineering Manager
Suzanne DeLorenzo	Water Quality Manager
Adora Campbell	HR Representative/Executive Assistant



Government Finance Officers Association

**Certificate of
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**Clackamas River Water
Oregon**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

FINANCIAL SECTION



Clackamas River Water

REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners
Clackamas River Water District

Report on Financial Statements

We have audited the accompanying basic financial statements of Clackamas River Water District (the District), which comprise the statement of net position as of June 30, 2014 and 2013, and the related statements of revenue, expense, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Clackamas River Water District as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

REPORT OF INDEPENDENT AUDITORS (continued)

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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.

Other Information

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

The supplementary information (budgetary comparison 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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 12, 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.



Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
November 12, 2014

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 and 2013**

As management of Clackamas River Water (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at June 30, 2014 by \$55,837,147 (net position). Of this amount, \$4,000,703 (unrestricted net position) may be used to meet ongoing obligations and \$4,977,188 (restricted or reserved net position) are held for debt service and capital projects. The balance, \$46,859,257 is net investment in capital assets.
- The total net position increased by \$1,086,462 from the prior year, a result of increases in wholesale and retail water rates as approved by the Board of Commissioners, and PGE's contribution for the emergency generator project.
- Total Operating Revenues were \$9,018,817, an increase of \$689,206 from 2013. The increase in the current year is primarily due to an increase in wholesale rates, effective July 1, 2013 and the retail rate increase effective May 1, 2014. Operating Expenses before depreciation totaled \$7,069,500, an increase of \$256,088 over 2013. The difference between revenues and operating expenses resulted in a Net Operating Gain totaling \$102,809.
- The District has capital assets, net of accumulated depreciation, of \$49,734,323 at June 30, 2014. This is an increase of \$1,378,782 from 2013, which in turn decreased \$514,705 from 2012. This increase is due to an investment of an emergency generator at the water treatment plant. The financial statements of the District also recognized \$1,846,508 in depreciation expense in the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are included in the District's annual report and include the Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows and notes to the financial statements. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements. In addition to these statements, this report also contains supplementary information.

The District is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the flow of economic resource measurement focus and the accrual basis of accounting.

The Statement of Net Position provides information about the financial position of the District, including all of its capital assets and long-term liabilities. It follows the full accrual basis of accounting, similar to that used by corporations.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2014 and 2013**

The Statement of Revenues, Expenses and Changes in Net Position presents the District's change in net position as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, the District's net position includes transactions that do not affect cash flow until future fiscal periods.

The Statement of Cash Flows depicts changes in the District's cash flow resulting from current year operations. This statement is prepared using the direct method and includes a reconciliation of operating income to net cash provided by operating activities (indirect method) as required by GASB 34.

Budgetary fund statements are included in the supplementary information section of this report. These statements provide more detailed information about the District's funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with budgetary legal requirements.

Financial Analysis

A summary of the District's Statement of Net Position at June 30, is as follows:

Condensed Statement of Net Position

	2014	2013	Difference 2014-2013	Percent Change	2012
Assets					
Current assets	\$10,176,345	\$10,467,287	(\$290,942)	-2.8%	\$10,173,129
Other assets	-	29,665	(29,665)	NA	125,397
Capital assets	49,734,323	48,355,541	1,378,782	2.9%	48,870,246
Total Assets	59,910,668	58,852,493	1,058,175	1.8%	59,168,772
Deferred Outflows	18,268	21,149	(2,881)	-13.6%	-
Total Assets and Deferred Outflows	59,928,936	58,873,642	1,055,294	1.8%	59,168,772
Liabilities					
Current liabilities	1,574,747	1,229,622	345,125	28.1%	1,409,933
Non-current liabilities	2,517,041	2,893,334	(376,293)	-13.0%	3,228,480
Total Liabilities	4,091,788	4,122,956	(31,168)	-0.8%	4,638,413
Net Position					
Net investment in capital assets	46,859,257	45,127,061	1,732,196	3.8%	45,093,351
Restricted	4,977,188	6,632,843	(1,655,655)	-25.0%	7,717,351
Unrestricted	4,000,703	2,990,782	1,009,921	33.8%	1,719,657
Total net position	\$55,837,148	\$54,750,686	\$1,086,462	2.0%	\$54,530,359
Total Liabilities and Net Position	\$59,928,936	\$58,873,642	\$1,055,294	1.8%	\$59,168,772

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2014 and 2013**

Total assets increased this fiscal year by \$1,058,175. Total assets were \$59,910,668, \$58,852,493 and \$59,168,772 for fiscal years ended June 30, 2014, 2013, and 2012, respectively. Current assets decreased by \$290,942, and capital assets increased by \$1,378,782 for fiscal year 2014. The decrease in current assets is due to decreases in restricted cash and cash equivalents, accounts receivable (net), grants receivable, supplies inventory and other current assets. This decrease is partially offset by increases in cash and cash equivalents and cash held for customer deposits. Capital assets increased due to the addition of the emergency generator capital project at the water treatment plant. Total assets decreased by \$316,279 for fiscal year 2013 when compared to fiscal year 2012. The decrease is due to the elimination of fully depreciated assets that were below the capitalization threshold of \$5,000. This was partially offset by increases in account receivable included in current assets.

Deferred outflows decreased by 13.6 percent or \$2,881 when compared to fiscal year ended June 30, 2013. Deferred outflows are related to deferred refunding costs on the 2009 Revenue Bonds.

Total liabilities decreased 0.8 percent during fiscal year 2014. Total liabilities were \$4,091,788, \$4,122,956 and \$4,638,413 for fiscal years ended June 30, 2014, 2013, and 2012, respectively. Current liabilities increased by \$345,125 (28.1 percent) during fiscal year 2014. This increase was due to increases in accounts payable, customer deposits and bonds payable (current portion) at the end of fiscal year 2014. Non-current liabilities decreased by \$376,293 (13 percent) due to payments made on the 2009 Revenue Bonds. Total liabilities for fiscal year 2013 decreased due to reductions in bonds payable and accrued expenses in current and non-current liabilities. No new debt was issued in fiscal year 2014.

Net position may serve as a useful indicator of the District's financial position. As of June 30, 2014, 2013, and 2012, assets exceeded liabilities by \$55,837,148, \$54,750,686 and \$54,530,359, respectively, for an increase of \$1,086,462 (2.0 percent) over fiscal year 2013. This is due in part to an increase of \$1,732,196 (3.8 percent) in net investment in capital assets totaling \$46,859,257, in 2014. A decrease of \$1,655,655 (25.0 percent) occurred in restricted net position totaling \$4,977,188 for 2014, compared to fiscal year 2013. It is considered restricted or reserved by debt covenants or other legal requirements and accounts for 8.9 percent of the total net position. Unrestricted net position is normally used to finance day-to-day operations. It totaled \$4,000,702 at June 30, 2014, an increase of \$1,009,920 (33.8 percent) compared to fiscal year 2013. For fiscal year 2013, net position increased by \$220,327 over fiscal year 2012. Net investment in capital assets increased by \$33,710, restricted net position decreased by \$1,084,509, and unrestricted net position increased by \$1,271,126 over fiscal year 2012.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2014 and 2013**

A summary of Change in Revenue, Expenses, and Net Position as of June 30 is presented as follows:

	2014	2013	Difference 2013-2014	Percent Change	2012
Operating Revenues:					
Water sales	\$8,815,333	\$8,035,375	\$779,958	9.7%	\$6,760,994
Other	203,484	294,236	(90,752)	-30.8%	161,270
Total Operating Revenues	<u>9,018,817</u>	<u>8,329,611</u>	<u>689,206</u>	8.3%	<u>6,922,264</u>
Nonoperating Revenues:					
Federal & other awards	393,909	70,000	323,909	462.7%	35,383
Interest earnings	41,317	45,131	(3,814)	-8.5%	46,405
Rental income	101,924	99,130	2,794	2.8%	96,417
Other	21,151	32,016	(10,865)	-33.9%	60,374
Total Revevnues	<u>9,577,118</u>	<u>8,575,888</u>	<u>1,001,230</u>	11.7%	<u>7,160,843</u>
Operating Expenses					
Water Resources	2,568,488	2,591,089	(22,601)	-0.9%	2,441,134
System Operations	1,461,265	1,332,091	129,174	9.7%	1,378,394
Finance, Accounting and Customer Service	972,661	867,780	104,881	12.1%	945,548
Administrative Services	1,711,775	1,563,516	148,259	9.5%	1,647,006
Engineering	465,458	424,690	40,768	9.6%	425,856
Board of Commissioners	129,577	182,102	(52,525)	-28.8%	181,797
CRWSC Activity	984	-	984	NA	-
Less:					
Overhead, equipment and labor capitalized	(240,708)	(147,856)	(92,852)	62.8%	(148,095)
Subtotal	<u>7,069,500</u>	<u>6,813,412</u>	<u>256,088</u>	3.8%	<u>6,871,640</u>
Depreciation	1,846,508	1,853,297	(6,789)	-0.4%	1,824,342
Loss from disposal of capital assets	562	-	562	NA	18,226
Interest expense	47,172	77,039	(29,867)	NA	75,492
Total Expenses	<u>8,963,742</u>	<u>8,743,748</u>	<u>219,994</u>	2.5%	<u>8,789,700</u>
Income (loss) before capital contributions	613,376	(167,860)	781,236	-465.4%	(1,628,857)
Capital Contributions & SDCs	<u>473,086</u>	<u>388,187</u>	<u>84,899</u>	21.9%	<u>426,606</u>
Increase in to Net Position	1,086,462	220,327	866,135	393.1%	(1,202,251)
Total Net Position - Beginning	<u>54,750,686</u>	<u>54,530,359</u>	<u>220,327</u>	0.4%	<u>55,732,610</u>
Total Net Position - Ending	<u>\$55,837,147</u>	<u>\$54,750,686</u>	<u>\$1,086,462</u>	2.0%	<u>\$54,530,359</u>

Total revenues increased \$1,001,230, 11.7 percent, for fiscal year 2014. Total revenue was \$9,577,118, \$8,575,888, and \$7,160,843 for fiscal years ended June 30, 2014, 2013, and 2012, respectively. Increases were noted in operating revenues due to water sales. Water sales increased by \$779,958 and \$1,274,381 in 2014 and 2013, respectively, due to a rate increases effective May 1, 2014 and May 1, 2013. Non-operating revenues rose significantly due to PGE contribution included in Federal & other awards, which were offset slightly by a reduction in interest earnings and other non-operating income. For fiscal year 2013, total revenue increased \$1,415,045 over fiscal year 2012. Increases were noted in water sales due to the rate increase effective May 1, 2012. Non-operating revenues increased slightly due to higher grant funding, which was largely offset by reductions in other non-operating revenues.

Expenses incurred by the six departments (Water Resources; System Operations; Finance, Accounting and Customer Service; Administrative Services; Engineering; and Board of Commissioners) totaled \$7,069,500, \$6,813,412, and \$6,871,640, for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2014 and 2013**

Water Resources is responsible for the District's water sources including treating, filtering and pumping water from the treatment plant or buying water from other agencies. System Operations oversees the water distribution system, as well as maintenance and improvement of the infrastructure (waterline, reservoirs, pumping stations). Finance, Accounting and Customer Service is responsible for the accounting, reporting, billing, and customer services activities. Administrative Services is responsible for general management, information systems, personnel, procurement and other administrative activities. Engineering is responsible for technical support as it relates to the District's water system. The Board is responsible for the expenses related to the Board of Commissioners.

The Water Resources department experienced a decrease of \$22,601 (0.9 percent) in expenses compared to fiscal year 2013. This decrease was primarily due to the completion of the ASR well water study and is partially offset by increases in water purchased from the South Fork Water Board after the well was converted to emergency use only. For fiscal year 2013, the increase of \$149,955 in expenditures over fiscal year 2012 was due to increased volume and costs of water purchased from South Fork Water Board and higher watershed management costs.

The System Operations department experienced an increase of \$129,174 (9.7 percent) in expenses compared to fiscal year 2013. This increase was primarily due to building and ground maintenance, contract work, material inventory and vehicle maintenance expense which, was offset by a decrease in personnel services due to employees changes in benefit selections in 2014 compared to fiscal year 2013. For fiscal year 2013, a decrease in expenditures of \$46,303 when compared to fiscal year 2012 was due to less building and ground maintenance, material inventory, and vehicle maintenance expenditures.

The Finance, Accounting and Customer Service (FACS) department has expenditures of \$972,661 during fiscal year 2014, an increase of \$104,881 (12.1 percent) from 2013. Two Sr. Finance and Accounting Specialist positions were un-staffed for several months during fiscal year 2013, whereas these positions were fully staffed for 2014 fiscal year. Fiscal year 2013 experienced a decrease of \$77,768 in expenditures when compared to fiscal year 2012 due to the reasons stated above.

The Administrative Services department had a \$148,259 (9.5 percent) increase in its expenses when compared to fiscal year 2013. This increase was primarily due to liability insurance, legal fees, computer, peripherals and software expense which were offset by decreases in emergency preparedness and insurance deductible payments. For fiscal year 2013, there was a \$83,490 decrease in expenditures compared to fiscal year 2012. This was primarily due to decreases in contract work, building and ground maintenance, computer related expenses and utilities partially offset by increases in emergency preparedness, general liability insurance and personnel services costs.

The Engineering department had a \$40,768 (9.6 percent) increase in expenditures compared to fiscal year 2013. The increase is due to less staff time being allocated to capital projects when compared to fiscal year 2013. Fiscal year 2013 experienced a \$1,166 decrease when compared to fiscal year 2012, due to reduced less materials and services expenditures than in fiscal year 2012.

The Board department has expenditures of \$129,577 during fiscal year 2014, a \$52,525 (28.8 percent) decrease. This is due to decreases in legal fees and special elections fees. For fiscal year 2013, there was an increase of \$305 when compared to fiscal year 2012.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2014 and 2013**

The amount of labor, overhead and equipment capitalized increased \$92,852 (62.8 percent) for fiscal year 2014. For fiscal year 2013, there was a decrease of \$239 when compared to fiscal year 2012.

Depreciation expense decreased \$6,789 (0.4 percent) for fiscal year 2014. Depreciation expense was \$1,846,508, \$1,853,297 and \$1,824,342 for fiscal years ended June 30, 2014, 2013, and 2012, respectively. Interest expense was \$47,172, \$77,039, and \$75,492 for fiscal years ended June 30, 2014, 2013, and 2012, respectively. Interest expense decreased due to interest savings on the debt refunding performed in 2010 offset by the interest on capital projects under construction in 2014.

Capital Assets

At June 30, 2014, the District had \$49,734,323 invested in a broad range of capital assets net of accumulated depreciation, including land, building, machinery, pump stations, reservoirs, distribution systems and construction-in-progress. The District had \$1,044,234 in additions or transfers during fiscal year 2014, of that amount, \$383,847 of additions were for improvements to the water distribution system with \$264,119 for new machinery, furniture and equipment. The District had \$3,726,578 of construction-in-progress at June 30, 2014. In fiscal year 2014, the District expensed \$1,846,508 in depreciation. Additional information on capital assets can be found in note 5 of the Notes to the Basic Financial Statements.

Debt Administration

The District's bonded debt is revenue bonds (debt to be retired by revenue sources other than taxes). Additional information regarding the District's long term debt can be found in note 6 of the Notes to the Basic Financial Statements.

Economic Factors, Next Year's Budget and Rates

The Board of Commissioners adopted the District's 2014-15 budget on June 11, 2014. The adoption of the budget provides funding for the District's operation, capital and debt service costs for the 2014-15 fiscal year. Several capital projects are funded in this budget including but not limited to the following:

- Adjustments to water mains and services necessitated by Oregon Department of Transportation or Clackamas County Department of Transportation and Development projects. which includes Bell Avenue, Tolbert Road, and Monterey Avenue;
- Hwy 212 and Lawnfield relocations in connection with County road resurfacing and upgrades;
- Design and construction of Carver Bridge transmission intertie and main;

The water rates are reviewed by staff and the Board of Commissioners on an annual basis. Water rates were approved March 31, 2014 to increase May 1, each year from 2014 through 2021.

Request for Information

Our financial report is designed to provide our ratepayers, investors and creditors with a general overview of the District's finances. Questions about this report or clarification of information may be directed to Chief Finance Officer at Clackamas River Water, 16770 SE 82nd Dr. (PO Box 2439), Clackamas, OR 97015.

BASIC FINANCIAL STATEMENTS



Clackamas River Water

CLACKAMAS RIVER WATER
STATEMENT OF NET POSITION
as of June 30, 2014 and 2013

	2014	2013
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 2,948,669	\$ 1,209,711
Cash held for customer deposits	128,846	92,392
Accounts receivable, net	1,788,023	2,124,540
Grants receivable	-	18,496
Supplies inventory	176,892	195,144
Other current assets	-	4,678
Prepaid expenses and other receivables	139,832	170,818
Current assets - unrestricted	5,182,262	3,815,779
Cash and cash equivalents - restricted	4,994,083	6,651,508
Current assets - restricted	4,994,083	6,651,508
Total current assets	10,176,345	10,467,287
Noncurrent Assets:		
Capital assets not being depreciated	6,168,080	3,986,461
Capital assets, net of accumulated depreciation	43,566,243	44,369,080
Other noncurrent assets	-	29,665
Total noncurrent assets	49,734,323	48,385,206
DEFERRED OUTFLOWS		
Deferred bond charges	18,268	21,149
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 59,928,936	\$ 58,873,642
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 737,844	\$ 442,503
Accrued expenses	298,952	314,598
Customer deposits and prepaid revenue	144,764	97,561
Accrued interest	16,893	18,665
Current portion of bonds payable	376,295	356,295
Total current liabilities	1,574,747	1,229,622
Noncurrent liabilities:		
Bonds payable	2,517,041	2,893,334
Total noncurrent liabilities	2,517,041	2,893,334
TOTAL LIABILITIES	4,091,788	4,122,956
NET POSITION:		
Net investment in capital assets	46,859,257	45,127,061
Restricted for:		
Debt service	387,683	383,730
Capital expenditures	3,457,985	5,123,693
Other purposes	1,131,520	1,125,420
Unrestricted	4,000,703	2,990,782
TOTAL NET POSITION	55,837,148	54,750,686
TOTAL LIABILITIES AND NET POSITION	\$ 59,928,936	\$ 58,873,642

See notes to basic financial statements

CLACKAMAS RIVER WATER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Water sales	\$ 8,815,333	\$ 8,035,375
Water service connections fees	86,754	90,881
Water service extension fees	22,950	1,171
Service charges on past due accounts	67,060	71,241
Miscellaneous	26,720	130,943
Total operating revenues	9,018,817	8,329,611
OPERATING EXPENSES:		
Water resources	2,568,488	2,591,089
System operations	1,461,265	1,332,091
Finance, accounting and customer service	972,661	867,780
Administrative services	1,711,775	1,563,516
Engineering	465,458	424,690
Board of commissioners	129,577	182,102
CRWSC activity	984	-
Less: Capitalized labor and overhead	(240,708)	(147,856)
Depreciation and amortization	1,846,508	1,853,297
Total operating expenses	8,916,008	8,666,709
OPERATING GAIN (LOSS)	102,809	(337,098)
NONOPERATING REVENUES (EXPENSES):		
Federal and other awards	393,909	70,000
Interest expense, net	(47,172)	(77,039)
Interest earnings on cash equivalents	41,317	45,131
Rental income	101,924	99,130
Interest income from note receivable	-	5,169
Loss on disposal of capital assets	(562)	-
Other	21,151	26,847
Total nonoperating revenues	510,567	169,238
GAIN (LOSS) BEFORE CONTRIBUTIONS	613,376	(167,860)
SYSTEM DEVELOPMENT CHARGES	167,096	120,998
CAPITAL CONTRIBUTIONS	305,990	267,189
CHANGE IN NET POSITION	1,086,462	220,327
NET POSITION - BEGINNING OF YEAR	54,750,686	54,530,359
NET POSITION - END OF YEAR	\$ 55,837,148	\$ 54,750,686

See notes to basic financial statements

**CLACKAMAS RIVER WATER
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2014 and 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 9,122,425	\$ 7,703,777
Cash payments to suppliers for goods and services	(3,184,353)	(3,195,324)
Cash payments to employees for services	(3,827,646)	(3,768,464)
Other receipts	329,332	195,926
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,439,758	935,915
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on revenue bonds	(340,000)	(535,000)
Interest paid on revenue bonds, net of amount capitalized	(106,460)	(119,585)
Proceeds from sale of capital assets	11,269	-
System development charges received	180,011	120,998
Grant and other revenue	393,909	86,887
Acquisition and construction of capital assets	(2,597,976)	(883,467)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(2,459,247)	(1,330,167)
 CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Rents received	96,159	101,858
Collections on notes receivable	-	108,971
Interest received on notes receivable	-	5,169
NET CASH FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	96,159	215,998
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	41,317	45,131
NET CASH FROM INVESTING ACTIVITIES	41,317	45,131
 NET CHANGE IN CASH AND CASH EQUIVALENTS	117,987	(133,124)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,953,611	8,086,735
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 8,071,598	\$ 7,953,611
 STATEMENT OF NET POSITION ACCOUNTS		
Cash and cash equivalents	\$ 2,948,669	\$ 1,209,711
Cash held for customer deposits	128,846	92,392
Restricted cash	4,994,083	6,651,508
	\$ 8,071,598	\$ 7,953,611

See notes to basic financial statements

CLACKAMAS RIVER WATER
STATEMENTS OF CASH FLOWS (Continued)
for the years ended June 30, 2014 and 2013

**RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:**

	2014	2013
Operating income (loss)	\$ 102,809	\$ (337,098)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,846,508	1,853,297
Capitalized labor and overhead	(240,708)	(147,856)
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	336,517	(496,632)
Grant receivable	18,496	11,504
Supplies inventory	18,252	655
Prepaid expenses	30,986	37,634
Increase (decrease) in:		
Accounts payable	295,341	46,481
Accrued expenses	(15,646)	(58,299)
Prepaid revenue	47,203	26,229
Total adjustments	<u>2,336,949</u>	<u>1,273,013</u>
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 2,439,758</u>	<u>\$ 935,915</u>

**Supplemental schedule of noncash investing
and capital financing activities:**

Donated capital assets	<u>\$ 220,620</u>	<u>\$ 173,167</u>
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CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

1. CLACKAMAS RIVER WATER

Clackamas River Water (the "District") is an independent domestic water supplier and distributor organized under the provisions of Oregon Revised Statutes Chapter 264. The District has served water customers within its two service area boundaries (north and south), as well as other water districts in Clackamas, Oregon, since 1995.

The District is a consolidation of the former Clackamas Water District, Stanley Water District, Barwell Park Water District, Clairmont Water District and Redland and Holcomb-Outlook Water District. The consolidation of these districts occurred between 1926 and 1995.

The District holds a permit that allows approximately forty million gallons of water per day ("MGPD") of water intake through its four intake locations on the Clackamas River. The District's water treatment plant has the capacity to treat approximately thirty MGPD and currently sells approximately nine MGPD to its customers. The District's four reservoirs hold excess treated water available for sale.

The District is governed by a five-member Board of Commissioners elected by the voters within the service area boundaries. Administrative functions are delegated to management employees who are responsible to the Board.

In November 2013, Clackamas River Water entered into an intergovernmental agreement with Sunrise Water Authority to efficiently use assets and resources to the mutual benefit of both parties and their customers. The Clackamas Regional Water Supply Commission (CRWSC) is an ORS190 agreement with its own Board of Commissioners, budget and management provided from the two agencies. Funding will be from a combination of cash contributions and water sales.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting:

For financial reporting purposes, the District reports on an enterprise fund basis. Enterprise funds (a proprietary fund type) are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the Statement of Net Position. The District's net position is segregated into three amounts: net investment in capital assets, restricted and unrestricted.

The District's basic financial statements are prepared on the accrual basis of accounting, which is in accordance with generally accepted accounting principles (GAAP) in the United States of America for proprietary fund types. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred, regardless of the timing of related cash flows.

All of the District's activities are included in its financial statements. The District has no component units (separate organizations that have significant operations or financial relationships with the District) or internal service funds (separate departments that provide goods or services to other departments on a cost-reimbursement basis) to consider for inclusion in its financial statements.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The District has prepared the financial statements in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

While not a formal policy, when both restricted and unrestricted resources are available, the District has historically used unrestricted resources first and then restricted resources as needed.

Use of Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents:

For financial reporting purposes, the District's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition and State of Oregon Local Government Investment Pool (LGIP) deposits.

The District maintains a pool of cash and cash equivalents that are available for use by all funds. Interest earned on the pooled cash and cash equivalents is allocated to participating funds based on their respective shares of the balances.

The District's investment policy, adopted by the Board of Commissioners, is limited to the type of investments legally allowed under Oregon Revised Statutes.

Investments are valued at fair value as required by GASB 31. The difference between fair value and cost is not material. The District's investments, authorized under state statutes and the District's investment policy, are comprised of amounts deposited in the LGIP.

Accounts Receivable:

Accounts receivable represent user charges, which are recognized as earned and unsecured.

Management determines receivables to be past due based on individual circumstances and writes off accounts when they are determined to be uncollectible. The District's collection program includes applying service charges to past due accounts, extending payment terms and, if needed, discontinuing water services. The District determines its allowance for uncollectible accounts by considering a number of factors, including length of time receivables are past due, the customer's ability to pay and previous collection history, as well as the economy as a whole.

Supplies Inventory:

Supplies inventory consists of operating supplies and repair parts. During fiscal year 2010-11 the District elected to change its method of valuing inventory to the average cost method, whereas in all prior years inventory was valued using the LIFO method. The new method of accounting for inventory was adopted to better align with industry standards.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Customer Deposits and Prepaid Revenue:

Customer deposits are collected in advance for a variety of services (primarily prepayments for water services, system development and the installation of meters) and are segregated in the District's cash account. These deposits are recognized as revenue when the related services are completed.

Capital Assets:

Capital assets (purchased or constructed) are stated at historical cost. Capital assets constructed by customers and contributed to the District are stated at cost as determined by the customer, whereas other contributed capital assets are stated at estimated fair value at the time received. Routine maintenance and repairs are charged to operations as incurred. Additions and improvements over \$5,000, with an estimated useful life in excess of one year, are capitalized and depreciated over their useful lives. CRW increased the capitalization threshold to \$5,000 in fiscal year 2003-04 but did not remove smaller dollar assets at that time. A one-time adjustment was completed during fiscal year 2012-13 to remove capital assets that had a historical cost under the \$5,000 threshold and were fully depreciated.

GAAP requires the cost of depreciable assets to be charged to operations over their expected useful lives in a systematic and rational manner, with consideration given to salvage value. The District records depreciation using the straight-line method over the estimated useful lives of the related assets.

The estimated useful lives of the District's depreciable assets are as follows:

	<u>Years</u>
Buildings	25-75
Improvements	10-75
Machinery, furniture & equipment	5-25
Pump stations	20-30
Reservoirs	50-75
Water distribution system	15-50

The District capitalizes labor, overhead and interest during the period of construction as part of the cost of capital assets. Labor costs are applied directly, whereas overhead is applied based on 30.7 percent of internal costs and 4.6 percent of outside costs. Capitalized labor and overhead costs totaled \$240,708 and \$147,856 for the years ended June 30, 2014 and 2013, respectively. Capitalized interest is allocated based on the weighted average net borrowing costs incurred and totaled \$73,768 and \$26,754 for the years ended June 30, 2014 and 2013, respectively.

Long-lived assets are evaluated for impairment annually and whenever events or changes in circumstances indicate the carrying amount of an asset may not be fully recoverable. Management evaluates the carrying value of its long-lived assets using estimated future cash flows, operating income, and estimated fair values.

Unamortized Bond Premiums, Issuance Costs, and Deferred Charges on Refunding:

Bond premiums relating to revenue bonds are amortized by the effective interest method over the life of the bond issue using a weighted average of the face amount of the outstanding bonds. Loss on refunding of bonds is amortized over the life of the old or new bonds, whichever is shorter, as a deferred outflows. Issuance costs are expensed as incurred.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Compensated Absences:

The District provides paid vacation for all employees after six months of service. Vacation is earned at a rate of ten to thirty days per year depending on length of service (except for employees with more than fifteen years of service as of June 1996, who are “grandfathered” into the policy in effect at their date of hire). Employees with more than six months of service will be paid for unused vacation upon termination.

The District also provides paid sick leave for all employees. Sick leave is earned at a rate of eight hours per full calendar month of employment. All hours accrued in excess of 1,040 are either paid or converted to additional vacation hours at December 31 each year. Terminated employees forfeit their accrued sick leave; however, employees retiring under the terms of either of the District’s retirement plans and who provide two weeks’ notice may receive cash for accrued sick leave or report to PERS for retirement calculation.

The District allows all hourly union employees to accumulate “comp time” in lieu of receiving overtime pay for any period in which the employee works in excess of their regularly scheduled hours.

Net Position:

All balances and transactions are presented based on the existence or absence of restrictions. These restrictions are either externally imposed (i.e., by grantors, creditors, contributors, or laws and regulations imposed by other governments) or imposed by law through constitutional provisions or enabling legislation. Accordingly, the net position of the District and changes therein, are classified and reported as follows:

Net Investment in capital assets – capital assets (net of accumulated depreciation) are reduced by the outstanding balance of the District’s revenue bonds which are attributable to the acquisition, construction and improvement of those assets.

Restricted – this component of net position consists of assets restricted by third parties or bond resolutions.

Unrestricted – all other elements of net position that are not included in the categories listed above.

Operating vs. Nonoperating Revenues and Expenses:

In accordance with GASB requirements for proprietary funds, the District distinguishes operating revenues and expenses from non-operating revenues and expenses in its Statement of Revenues, Expenses and Changes in Net Position.

The District has defined operating revenues to include all service charges and other applicable charges for services directly attributable to providing water and is recorded when the water is delivered (including an estimated amount for unbilled water sales).

Operating expenses are defined as those expenses directly related to providing these services including treating and delivering water to customers. Operating expenses include water resources, system operations, finance, accounting and customer service, administrative services, engineering, board of commissioner expenses and depreciation on capital assets. The District charges only direct costs (i.e., no indirect costs are allocated) to operating expenses.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Operating vs. Nonoperating Revenues and Expenses. Continued:

All other revenues and expenses not listed above are reported as non-operating revenues and expenses. System development charges are reported as capital contributions.

Risk Management:

The District is exposed to various risks of loss related to theft, damage, or destruction of assets; error and omissions; torts; employee injuries; and natural disasters. The District purchases commercial insurance to minimize its exposure to these risks.

Settled claims did not exceed the District's insurance coverage for any of the past three fiscal years.

Budget:

Oregon Budget Law requires annual budgets to be adopted for each of the District's funds and requires specific procedures to be followed when budgeting, including establishing a budget committee, providing adequate public notices of budget hearings, adopting the budget and making appropriations. The District's budget for the General Fund is adopted on the modified accrual basis of accounting following the main budgetary control categories required under Oregon Budget Law, whereas budgets for all other funds are adopted on the modified cash basis. The Board of Commissioner's final resolution authorizing appropriations for each fund sets the level at which actual expenditures cannot be legally exceeded. Unspent appropriations lapse at the end of each fiscal year.

Unexpected additional resources or expenditures may be added to the budget through the use of a supplemental budget, which requires additional procedures outlined in the Oregon Budget Law before adoption by the Board of Commissioners. Original and supplemental budgets may be modified using "appropriation transfers" between budgetary control categories, and such transfers require only the approval of the Board of Commissioners.

During the fiscal year the District made an appropriation transfer in the General Fund from the materials and services category to the transfer to other funds category to provide for the new CRWSC Activity Fund. There was one supplemental budget during fiscal 2014 in the General Fund capital outlay category. Additional grant monies were received for the purchase of emergency response equipment.

A summary of the District's Fiscal Year 2013-2014 Adopted Annual Budget is included in the Supplementary Information section attached to these general purpose financial statements.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents (recorded at fair value) consist of the following at June 30:

	2014	2013
Cash and cash equivalents:		
Cash on hand	\$ 900	\$ 900
Checking account	573,289	346,500
Participation in Oregon State Treasurer's		
Short-Term Investment Fund	<u>7,497,409</u>	<u>7,606,211</u>
Total cash and cash equivalents	<u>\$8,071,598</u>	<u>\$7,953,611</u>

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

3. CASH AND CASH EQUIVALENTS, Continued

Reported on the Statement of Net Position as follows:

	2014	2013
Current Assets		
Cash and cash equivalents	\$2,948,669	\$1,210,325
Cash held for customer deposits	128,846	92,392
Noncurrent Assets:		
Restricted cash and cash equivalents	<u>4,994,083</u>	<u>6,650,894</u>
Total cash and cash equivalents	<u>\$8,071,598</u>	<u>\$7,953,611</u>

Interest rate risk

In accordance with its investment policy, the District manages its exposure to fair value losses arising from increases in interest rates by limiting its investments to those having maturities not exceeding eighteen months.

Concentration of credit risk

The District maintains a policy of investing a maximum of its excess funds as is reasonably prudent while having cash available to meet daily operating needs. All of the District's investments are held in the Local Government Investment Pool (LGIP).

Custodial credit risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy includes guidance for legality, safety of investment, preservation of principal, and rate of return. The District's policy is guided by state statute for rating of investments which must be rated "A" (bonds) or better by Standard and Poor's, Moody's Investors Service or any other nationally recognized statistical rating organization.

At June 30, 2014, the book balance of the District's bank deposits (checking account) is \$573,289 and the bank balance is \$573,661. The difference is due to transaction in process. Of these deposits, \$250,000 was covered by Federal Depository Insurance Corporation (FDIC). As required by Oregon Revised Statutes, deposits in excess of FDIC limits were held at a qualified depository for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer. As a result, the District's remaining deposits in excess of FDIC insurance are considered to be fully collateralized.

The District participates in the Local Government Investment Pool (LGIP) which is part of the Oregon State Treasury Short-Term Investment Fund. The State of Oregon Investment policies are governed by statute and the Oregon Investment council. In accordance with Oregon Statutes, the investment funds are invested, as a prudent investor would do, exercising reasonable care, skill, and caution. Separate financial statements for the LGIP are available from the Oregon State Treasurer. The credit quality of the LGIP is unrated as to credit risk.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Water sales receivables	\$ 873,717	\$ 1,364,932
Unbilled water sales	860,000	621,900
Less allowance for uncollectible accounts	<u>(10,000)</u>	<u>(10,000)</u>
Total water sales receivable	1,723,717	1,976,832
Other	<u>64,306</u>	<u>147,708</u>
Total accounts receivable, net	<u>\$ 1,788,023</u>	<u>\$ 2,124,540</u>

Accounts receivable are stated at cost and are unsecured. Management determines receivables to be past due based on individual circumstances and writes off accounts when they are determined to be uncollectible. The District's collection program includes applying service charges to past due accounts, extending payment terms and, if needed, discontinuing water services. Receivables more than 90 days past due totaled \$21,188 and \$23,635 at June 30, 2014 and 2013, respectively.

The District determines its allowance for uncollectible accounts by considering a number of factors, including length of time receivables are past due, the customer's ability to pay and previous collection history, as well as the economy as a whole.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

5. CAPITAL ASSETS

The District's capital assets activity for the year ended June 30, 2014 is as follows:

	Balances June 30, 2013	Additions and Transfers	Retirements and Transfers	Balances June 30, 2014
Depreciable Assets:				
Buildings	\$ 6,869,146	\$ -	\$ -	\$ 6,869,146
Improvements	7,888,924	205,670	-	8,094,594
Machinery, furniture and equipment	3,157,989	264,119	(55,716)	3,366,392
Pump stations	3,957,196	190,598	-	4,147,794
Reservoirs	6,589,983	-	-	6,589,983
Water distribution system	52,145,278	383,847	-	52,529,125
	<u>80,608,516</u>	<u>1,044,234</u>	<u>(55,716)</u>	<u>81,597,034</u>
Accumulated depreciation:				
Buildings	(4,783,547)	(247,274)	-	(5,030,821)
Improvements	(2,831,258)	(245,878)	-	(3,077,136)
Machinery, furniture and equipment	(2,233,512)	(91,187)	-	(2,324,699)
Pump stations	(2,688,027)	(112,515)	-	(2,800,542)
Reservoirs	(2,518,923)	(142,058)	-	(2,660,981)
Water distribution system	(21,184,170)	(1,007,596)	-	(22,191,766)
	<u>(36,239,438)</u>	<u>(1,846,508)</u>	<u>-</u>	<u>(38,085,946)</u>
Total depreciable assets, net	<u>44,369,080</u>	<u>(802,274)</u>	<u>(55,716)</u>	<u>43,511,089</u>
Nondepreciable assets:				
Land and easements	2,441,502	-	-	2,441,502
Construction in Progress	1,544,959	2,697,548	(515,929)	3,726,578
Total nondepreciable assets	<u>3,986,461</u>	<u>2,697,548</u>	<u>(515,929)</u>	<u>6,168,080</u>
Total capital asset activity	<u>\$ 48,355,541</u>	<u>\$ 1,895,274</u>	<u>\$ (571,645)</u>	<u>\$ 49,679,169</u>

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

5. CAPITAL ASSETS, Continued

The District's capital assets activity for the year ended June 30, 2013 is as follows:

	Balances June 30, 2012	Additions and Transfers	Retirements and Transfers	Balances June 30, 2013
Depreciable Assets:				
Buildings	\$ 6,936,965	\$ -	\$ (67,819)	\$ 6,869,146
Improvements	7,881,393	47,366	(39,834)	7,888,924
Machinery, furniture and equipment	3,538,881	15,921	(396,813)	3,157,989
Pump stations	3,914,701	57,069	(14,575)	3,957,196
Reservoirs	6,589,983	-	-	6,589,983
Water distribution system	51,693,945	454,004	(2,671)	52,145,278
	<u>80,555,868</u>	<u>574,360</u>	<u>(521,712)</u>	<u>80,608,516</u>
Accumulated depreciation:				
Buildings	(4,604,091)	(247,275)	67,819	(4,783,547)
Improvements	(2,604,410)	(266,682)	39,834	(2,831,258)
Machinery, furniture and equipment	(2,527,931)	(102,394)	396,813	(2,233,512)
Pump stations	(2,595,992)	(106,610)	14,575	(2,688,027)
Reservoirs	(2,379,536)	(142,058)	2,671	(2,518,923)
Water distribution system	(20,195,892)	(988,278)	-	(21,184,170)
	<u>(34,907,852)</u>	<u>(1,853,297)</u>	<u>521,712</u>	<u>(36,239,438)</u>
Total depreciable assets, net	<u>45,648,016</u>	<u>(1,278,937)</u>	<u>-</u>	<u>44,369,080</u>
Nondepreciable assets:				
Land and easements	2,441,502	-	-	2,441,502
Construction in Progress	<u>780,728</u>	<u>950,411</u>	<u>(186,180)</u>	<u>1,544,959</u>
Total nondepreciable assets	<u>3,222,230</u>	<u>950,411</u>	<u>(186,180)</u>	<u>3,986,461</u>
Total capital asset activity	<u>\$ 48,870,246</u>	<u>\$ (328,526)</u>	<u>\$ (186,180)</u>	<u>\$ 48,355,541</u>

During fiscal year 2012-13 capital assets of \$500,542 were retired. These capital assets were acquired prior to fiscal year 2003-04 with historical cost less than \$5,000 and were fully depreciated.

Depreciation expense charged to operations totaled \$1,846,508 and \$1,853,297 for the years ended June 30, 2014 and 2013, respectively.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

6. BONDS PAYABLE

The District issued Series 2009 Revenue Bonds pursuant to Oregon Revised Statutes (“ORS”) Sections 287A.360 and 264.270 to refund prior bond issuances with higher interest rates. Interest of 3.00% to 4.00% is payable semi-annually on May 1 and November 1. The bonds are secured by the District’s net operating revenues, net position reserved for rate stabilization and a Reserve Credit Facility (see below). The prior bond issuance, Series 1999 Revenue Bonds of \$7.9 million, were for capital improvements within the transmission and distribution system.

The revenue bond resolution contains covenants that rates and fees are adequate to generate net operating revenues (excluding depreciation) of at least 1.25 times principal and interest, and 1.00 time principal and interest after subtracting system development charges. The District has exceeded these requirements for the years ending June 30, 2014 and June 30, 2013.

The District’s revenue bond activity for the year ended June 30, 2014 is as follows:

	Balances June 30, 2013	Additions	Payments & Decreases	Balances June 30, 2014	Amount due within one year	Long-term portion
Revenue Bonds - 2009	\$ 3,130,000	\$ -	\$ (340,000)	\$ 2,790,000	\$ 360,000	\$ 2,430,000
Unamortized premium	119,629	-	(16,295)	103,334	16,295	87,040
	<u>\$ 3,249,629</u>	<u>\$ -</u>	<u>\$ (356,295)</u>	<u>\$ 2,893,334</u>	<u>\$ 376,295</u>	<u>\$ 2,517,040</u>

The District’s revenue bond activity for the year ended June 30, 2013 is as follows:

	Balances June 30, 2012	Additions	Payments & Decreases	Balances June 30, 2013	Amount due within one year	Long-term portion
Revenue Bonds - 2009	\$ 3,665,000	\$ -	\$ (535,000)	\$ 3,130,000	\$ 340,000	\$ 2,790,000
Unamortized premium	135,924	-	(16,295)	119,629	16,295	103,334
	<u>\$ 3,800,924</u>	<u>\$ -</u>	<u>\$ (551,295)</u>	<u>\$ 3,249,629</u>	<u>\$ 356,295</u>	<u>\$ 2,893,334</u>

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

6. BONDS PAYABLE, Continued

Scheduled future principal and interest payments are summarized below for the years ending June 30:

Fiscal Year	Principal	Interest
2015	\$ 360,000	\$ 95,555
2016	365,000	84,275
2017	380,000	73,100
2018	390,000	59,600
2019	415,000	43,500
2020-2021	880,000	35,600
	<u>\$ 2,790,000</u>	<u>\$ 391,630</u>

The District's revenue bonds are paid solely from the District's net operating revenue and certain other restricted assets pledged as payment for the bonds. Other restricted assets are system development fees for fiscal year 2014. For FY 2013-14 pledged revenue was approximately 5 percent of water revenue. The bonds are not funded by tax charges and are not general obligations of the District.

Reserve Credit Facility:

The bond agreement requires the District to maintain two reserve accounts. The principal and semi-annual interest payment amount must be deposited in the Bond Payment account in time for the registrar and paying agent (Wells Fargo) to disburse the principal and interest payments when due.

7. RESTRICTED NET POSITION

Certain of the District's assets are restricted for specified purposes. Legal or contractual agreements restrict amounts for debt service, system development, capital improvements, and rate stabilization. The components of the restricted net position, liabilities associated with investment in capital assets and restricted component of net position as of June 30, 2014 were as follows:

	2014	2013
Restricted Net Position		
Debt Service Reserves	\$ 387,683	\$ 383,730
System Development Reserves	394,978	2,023,024
Capital Improvements Reserves	3,063,007	3,100,669
Rate Stabilization Reserves	1,131,520	1,125,420
Total Restricted Net Position	<u>\$ 4,977,188</u>	<u>\$6,632,843</u>

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

8. ACCRUED EXPENSES

Accrued expenses consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Compensated Absences	\$ 226,215	\$ 211,290
Payroll	63,815	50,759
PERS (note 11)	-	44,894
Payroll Taxes and other	<u>8,922</u>	<u>7,655</u>
	<u>\$ 298,952</u>	<u>\$ 314,598</u>

9. RENTAL INCOME

The District leases approximately 5,000 square feet of its administration office building in Clackamas, Oregon to Pet RX, Inc. under an agreement that expired in October 2013. The lease contains two lease term renewal options for five years each at the option of Pet RX, Inc., extending the terms of the lease through October 2023, under the same terms and conditions of the original lease. Pet Rx, Inc. executed the first five-year lease option, which expires October 2018. The original lease was amended on November 26, 2008 and increased the rent in effect as of the adjustment date for the ensuing year and each year thereafter by the amount of 3%.

During fiscal year 2011, the District entered into an additional lease with Pet RX, Inc. to lease approximately 685 square feet of storage space under an agreement that expires in September 2015.

Rental income is recognized as non-operating revenue and totaled \$101,924 and \$99,130 for the years ended June 30, 2014 and 2013, respectively.

Scheduled rental income under the leases (including option years) is as follows for the years ending June 30:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 104,801
2016	103,265
2017	104,818
2018	107,963
2019	111,202
2020-2024	534,817
	<u>\$ 1,066,868</u>

10. OPERATING LEASES

In December 2008 the District began leasing two mailing stations under agreements that expired in February 2014. In August 2013 the District signed a new agreement to replace the December 2008 agreement. The new agreement expires August 2018. Rent expense charged to operations under these agreements totaled \$2,761 and \$2,903 for the years ended June 30, 2014 and 2013, respectively.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

10. OPERATING LEASES, Continued

The District also leases two copiers under a lease agreement that expires in February 2015 and three copiers under a lease agreement which expires in December 2017. Rent expense charged to operations under these agreements totaled \$15,284 and \$16,765 for each of the years ended June 30, 2014 and 2013, respectively. One copier, under a lease agreement that expires February 2015, has been exchanged with a new agreement that expires June 2019.

The aggregate minimum lease commitment under all non-cancelable operating leases with terms of more than one year are as follows for the years ended June 30:

Fiscal Year	Amount
FY15	\$ 12,884
FY16	10,962
FY17	8,370
FY18	3,536
FY19	3,087
	<u>\$ 38,839</u>

The District leases other rental equipment under month-to-month agreements. Rent expense charged to operations under all operating leases totaled \$43,839 and \$34,689 for the years ended June 30, 2014 and 2013, respectively.

11. PENSION PLANS

Plan Description:

The District is a participating employer in the Oregon Public Employee Retirement System (PERS), an agent multiple-employer public employee retirement system established under Oregon Revised Statutes 238.600 that acts as a common investment and administrative agent for public employers in the State of Oregon.

The District has elected to participate in a State and Local Government Rate Pool (SLGRP) available for certain public employees, where the District is pooled into a larger group for purposes of determining contribution rates. Pool participants share pension assets, future pension liabilities and surpluses because they jointly fund the future pension costs of all the pooled participants.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS, the Oregon Public Service Retirement Plan (OPSRP), a cost sharing multiple-employer defined benefit and defined contribution plan. OPSRP is effective for all employees hired on or after August 29, 2003. The new plan consists of a defined benefit program (the "Pension Program") and a defined contribution portion (the Individual Account Program or IAP). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary, years of service and a factor.

Both PERS and OPSRP are administered by the Oregon Public Employees Retirement Board ("OPERB"). The comprehensive annual financial report of the funds administered by the OPERB may be obtained by writing to the Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, OR 97281-3700, by calling 1-888-320-7377, or by accessing the PERS website at <http://oregon.gov/PERS/>.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

11. PENSION PLANS, Continued

Funding Policy:

Employer contribution are required by state statute and made at actuarially determined rates as adopted by OPERB. Covered employees are required by state statute to contribute 6.0 percent of their annual salary to the system but the employer is allowed to pay any or all of the employees' contribution in addition to the employers' required contribution. ORS 238.205 and Internal Revenue Code Section 414 (h) permit the District to "pick up" this amount on behalf of its employees and the District has elected to do so for one employee.

The District's annual contribution rate for fiscal years ending June 30, 2014 and 2013 was 16.37% and 16.39% for PERS and 13.76% and 13.92% for OPSRP, respectively. Employees of the District are classified by PERS as general service employees.

Annual Pension Cost:

For the year ended June 30, 2014 and 2013, the District's required and actual contribution was \$420,872 and \$410,940, respectively. Employer contributions are calculated in conformance with the provisions of GASB Statement 27 *Accounting for Pensions by State and Local Governmental Employers* as a percentage of covered payroll. Therefore, the contributions paid to PERS are equal to the annually required contribution with no net pension obligation necessary to amortize.

The required contributions for the years ended June 30, 2014 and 2013 were determined as part of a December 31, 2011 actuarial valuation that used the projected unit credit method.

Significant actuarial assumptions used in the valuation included: (a) rate of return on the investment of present and future assets of 8%, (b) asset valuation method based on market value, (c) projected salary increases that include 3.75% per year in addition to salary increases due to promotions and longevity that may vary by age and service, (d) post-retirement benefit increases of 2% per year (the maximum allowable), (e) consumer price inflation of 2.75% per year, (f) healthcare cost inflation trend rate of 8.0% in 2008 decreasing to 5.0% in 2013, and (g) amortization of the unfunded actuarially accrued liability as a level percentage of payroll over 20 years for PERS and 16 years for OPSRP.

Both PERS and OPSRP defined benefit pension plans utilize a contribution rate stabilization method to restrict the degree of change to new contribution rates. The new contribution rate will not increase or decrease from the prior contribution rate by more than the greater of 3 percentage points or 20 percent of the current rate. If the funded percentage drops below 80% or increases above 120%, the range of the potential rate adjustment doubles.

Three-year trend information for the years ended June 30 is presented as follows:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
2014	\$ 420,872	100%
2013	410,940	100%
2012	406,361	100%

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

12. DEFERRED COMPENSATION PLANS

The District offers its employees multiple deferred compensation plans created in accordance with Internal Revenue Code Section 457. Plan contributions and assets are set aside in trust, with the custodial trustee and administrator, for the exclusive benefit of participants and beneficiaries.

The plans permit participating employees to contribute up to 100% of gross pay or the statutorily prescribed annual dollar limit, whichever is smaller. The District may, at its discretion, make employer contributions. The District's plans, as currently adopted, do not provide for employer contributions. Plan contributions and earnings thereon are available to participating employees upon termination of employment, retirement, death, or unforeseen emergency.

13. COMMITMENTS AND CONTINGENCIES

Legal Matters:

The District is involved in various legal matters; however, management has been advised by the District's legal counsel that the resolution of these matters will not likely have a significant adverse effect on the District's financial position.

Unemployment Insurance:

The District is self-insured for unemployment compensation. Liabilities are recorded when it is probable that a loss has occurred and the amount can be reasonably estimated. The District paid no claims for the years ended June 30, 2014 and 2013.

Construction Commitments:

Construction in progress totaled \$3,726,578 at June 30, 2014. Of these projects, the District has made construction commitments of approximately \$352,000 as of June 30, 2014.

SUPPLEMENTARY INFORMATION



Clackamas River Water

CLACKAMAS RIVER WATER DESCRIPTION OF BUDGETARY FUNDS

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

General Fund

This fund accounts for the district's normal recurring operations of the water supply distribution system. The primary source of revenue is water sales.

CRWSC Activity Fund

This fund accounts for the district's support of the Clackamas Regional Water Supply Commission (CRWSC), an ORS 190 agreement with Sunrise Water Authority. The primary source of revenue is wholesale water sales and services provided to Sunrise Water Authority.

Capital Improvement Projects Fund

This fund accounts for construction activity of the district. Construction activity includes additions, replacements, and improvements for storage, transmission, distribution, supply and facilities of the district. The primary resources are transfers from the General Fund and Capital Reserve Fund and interest earnings.

Revenue Bond Fund

This fund accounts for the redemption of revenue and general obligation bond principal and interest expenditures. The primary resources are transfers from the General Fund and SDC Reserve Fund.

Capital Reserve Fund

The Capital Reserve Fund accounts for funds reserved for future expansion and improvements to the system. The primary resources are interest earnings and transfers from the General Fund.

Rate Stabilization Reserve Fund

The Rate Stabilization Reserve Fund accounts for funds reserved for stabilizing the revenues of the district to maintain bond covenants on the 2009 Revenue Bond issue. The primary resources are interest earnings.

SDC Reserve Fund

The SDC Reserve Fund accounts for funds reserved for future expansion and improvements to the system. The primary resources are interest earnings and systems development charges.

CLACKAMAS RIVER WATER
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				
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	2013 Actual
Revenues:					
Water sales	\$ 8,100,000	\$ 8,100,000	\$ 8,815,333	\$ 715,333	\$ 8,035,375
Service connections	32,400	32,400	86,754	54,354	90,881
Service charges	60,000	60,000	67,060	7,060	71,241
Miscellaneous - operating	40,000	40,000	43,121	3,121	18,096
Rental income	102,900	102,900	101,924	(976)	120,514
Miscellaneous - nonoperating	15,000	15,000	9,485	(5,515)	150,848
Grant funds	-	18,800	18,809	9	40,000
Surplus property sale	5,000	5,000	11,269	6,269	395
Interest income	7,300	7,300	8,145	845	7,548
Total revenues	8,362,600	8,381,400	9,161,900	780,500	8,534,898
Other financing source:					
Transfer from					
Rate Stabilization Reserve Fund	-	-	-	-	500,000
Total revenues and other financing source	8,362,600	8,381,400	9,161,900	799,300	9,034,898
Beginning fund balance available for appropriation	2,100,000	2,100,000	2,874,926	774,926	1,524,804
	\$ 10,462,600	\$ 10,481,400	\$ 12,036,826	\$ 1,574,226	\$ 10,559,702

CLACKAMAS RIVER WATER
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				
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	2013 Actual
Expenditures:					
Water Resources:					
Personal services	\$ 1,013,896	\$ 1,013,896	\$ 978,315	\$ 35,581	\$ 987,203
Materials and services	1,744,800	1,744,800	1,590,173	154,627	1,603,886
Capital outlay	119,000	119,000	93,205	25,795	70,525
	<u>2,877,696</u>	<u>2,877,696</u>	<u>2,661,693</u>	<u>216,003</u>	<u>2,661,614</u>
System Operations:					
Personal services	1,104,812	1,104,812	1,041,827	62,985	1,030,733
Materials and services	429,300	429,300	426,521	2,779	322,115
Capital outlay	45,000	63,800	83,689	(19,889)	49,113
	<u>1,579,112</u>	<u>1,597,912</u>	<u>1,552,037</u>	<u>45,875</u>	<u>1,401,961</u>
Finance, Accounting, & Customer Service					
Personal services	729,771	729,771	678,500	51,271	571,884
Materials and services	279,400	279,400	294,160	(14,760)	295,895
	<u>1,009,171</u>	<u>1,009,171</u>	<u>972,660</u>	<u>36,511</u>	<u>867,779</u>
Administrative Services:					
Personal services	646,217	646,217	621,628	24,589	619,657
Materials and services	975,100	974,100	830,381	143,719	796,953
Capital outlay	45,000	45,000	-	45,000	25,510
	<u>1,666,317</u>	<u>1,665,317</u>	<u>1,452,009</u>	<u>213,308</u>	<u>1,442,120</u>
Board of Commissioners					
Personal services	125,069	125,069	111,068	14,001	111,058
Materials and services	19,100	19,100	18,509	591	71,045
	<u>144,169</u>	<u>144,169</u>	<u>129,577</u>	<u>14,592</u>	<u>182,103</u>
Engineering					
Personal services	405,161	405,161	436,169	(31,008)	409,307
Materials and services	25,200	25,200	29,289	(4,089)	15,384
	<u>430,361</u>	<u>430,361</u>	<u>465,458</u>	<u>(35,097)</u>	<u>424,691</u>
Contingency	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>-</u>
Total expenditures	<u>8,206,826</u>	<u>8,224,626</u>	<u>7,233,435</u>	<u>991,192</u>	<u>6,980,268</u>
Other financing uses:					
Transfers to other funds:					
Capital Reserve Fund	750,000	750,000	750,000	-	500,000
CRWSC Activity Fund	-	1,000	1,000	-	-
Revenue Bond Fund	213,674	213,674	190,638	23,036	204,508
Total other financing uses	<u>963,674</u>	<u>964,674</u>	<u>941,638</u>	<u>23,036</u>	<u>704,508</u>
Total expenditures and other financing uses	<u>9,170,500</u>	<u>9,189,300</u>	<u>8,175,073</u>	<u>1,014,228</u>	<u>7,684,776</u>
Unappropriated ending fund balance	<u>1,292,100</u>	<u>1,292,100</u>	<u>3,861,753</u>	<u>(2,569,653)</u>	<u>2,874,926</u>
	<u>\$ 10,462,600</u>	<u>\$ 10,481,400</u>	<u>\$ 12,036,826</u>	<u>\$ (1,555,425)</u>	<u>\$ 10,559,702</u>

**CLACKAMAS RIVER WATER
CRWSC ACTIVITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2014**

	2014			Variance to Final Budget Over (Under)
	Original Budget	Final Budget	Actual	
Revenues:				
Miscellaneous - nonoperating	\$ -	\$ -	399	\$ 399
Total revenues	-	-	399	399
Other financing sources				
Transfers from other funds:				
General Fund	-	1,000	1,000	-
Total other financing sources	-	1,000	1,000	-
Total revenues and other financing sources	-	1,000	1,399	399
Beginning fund balance available for appropriations	-	-	-	-
	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 1,399</u>	<u>\$ 399</u>

	2014			Variance to Final Budget (Over) Under
	Original Budget	Final Budget	Actual	
Expenditures:				
Materials and services	\$ -	\$ 1,000	\$ 984	\$ 16
Total expenditures	-	1,000	984	16
Unappropriated ending fund balance	-	-	415	(415)
	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 1,399</u>	<u>\$ (399)</u>

FUND ESTABLISHED FISCAL YEAR 2013-2014
RESOLUTION 16-2014

**CLACKAMAS RIVER WATER
CAPITAL IMPROVEMENT PROJECTS 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				
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	2013 Actual
Revenues:					
Interest income	\$ -	\$ -	\$ 901	\$ 901	\$ 1,228
PGE - Grant	-	-	375,100	375,100	-
ODOT - reimbursement	-	-	6,548	6,548	114,018
Total revenues	-	-	382,549	382,549	115,246
Other financing sources					
Transfers from other funds:					
SDC Reserve Fund	1,764,800	1,764,800	1,545,000	(219,800)	630,000
Capital Reserve Fund	1,371,200	1,371,200	855,000	(516,200)	165,000
Total other financing sources	3,136,000	3,136,000	2,400,000	(736,000)	795,000
Total revenues and other financing sources	3,136,000	3,136,000	2,782,549	(353,451)	910,246
Beginning fund balance available for appropriations	1,000	1,000	85,403	84,403	48,570
	\$ 3,137,000	\$ 3,137,000	\$ 2,867,952	\$ (269,048)	\$ 958,816

	2014				
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	2013 Actual
Expenditures:					
Personal services	\$ -	\$ -	\$ -	\$ -	\$ -
Materials and services	-	-	-	-	-
Capital Outlay	3,137,000	3,137,000	2,676,498	460,502	873,413
Total expenditures	3,137,000	3,137,000	2,676,498	460,502	873,413
Unappropriated ending fund balance	-	-	191,454	(191,454)	85,403
	\$ 3,137,000	\$ 3,137,000	\$ 2,867,952	\$ 269,048	\$ 958,816

**CLACKAMAS RIVER WATER
REVENUE BOND 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				
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	2013 Actual
Revenue:					
Interest income	\$ 2,000	\$ 2,000	\$ 2,181	\$ 181	\$ 2,531
Other financing sources:					
Transfers from other funds:					
General Fund	213,674	213,674	190,638	(23,036)	204,508
SDC Reserve Fund	255,822	255,822	255,822	-	375,077
Total other financing sources	469,496	469,496	446,460	(23,036)	579,585
Total revenue and other financing sources	471,496	471,496	448,641	(22,855)	582,116
Beginning fund balance available for appropriations	468,000	468,000	475,480	7,480	547,949
	\$ 939,496	\$ 939,496	\$ 924,121	\$ (15,375)	\$ 1,130,065

	2014				
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	2013 Actual
Expenditures:					
Principal on bonds	\$ 340,000	\$ 340,000	\$ 340,000	\$ -	\$ 535,000
Interest on bonds	106,460	106,460	106,460	-	119,585
Total expenditures	446,460	446,460	446,460	-	654,585
Unappropriated ending fund balance	493,036	493,036	477,661	15,375	475,480
	\$ 939,496	\$ 939,496	\$ 924,121	\$ 15,375	\$ 1,130,065

**CLACKAMAS RIVER WATER
CAPITAL RESERVE 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				
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	2013 Actual
Revenue:					
Interest income	\$ 13,200	\$ 13,200	\$ 18,310	\$ 5,110	\$ 16,432
Other financing source:					
Transfer from General Fund	750,000	750,000	750,000	-	500,000
Total revenue and other financing source	<u>763,200</u>	<u>763,200</u>	<u>768,310</u>	<u>5,110</u>	<u>516,432</u>
Beginning fund balance available for appropriations	3,258,000	3,258,000	3,100,055	(157,945)	2,748,623
	<u>\$ 4,021,200</u>	<u>\$ 4,021,200</u>	<u>\$ 3,868,365</u>	<u>\$ (152,835)</u>	<u>\$ 3,265,055</u>

	2014				
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	2013 Actual
Other financing uses:					
Transfer to CIP Fund	\$ 1,371,200	\$ 1,371,200	\$ 855,000	\$ 516,200	\$ 165,000
Total other financing uses	<u>1,371,200</u>	<u>1,371,200</u>	<u>855,000</u>	<u>516,200</u>	<u>165,000</u>
Unappropriated ending fund balance	2,650,000	2,650,000	3,013,365	(363,365)	3,100,055
	<u>\$ 4,021,200</u>	<u>\$ 4,021,200</u>	<u>\$ 3,868,365</u>	<u>\$ 152,835</u>	<u>\$ 3,265,055</u>

**CLACKAMAS RIVER WATER
RATE STABILIZATION RESERVE 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				
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	2013 Actual
Revenue:					
Interest income	\$ 5,400	\$ 5,400	\$ 6,100	\$ 700	\$ 4,295
Beginning fund balance available for appropriations	890,800	890,800	1,125,420	234,620	1,621,125
	<u>\$ 896,200</u>	<u>\$ 896,200</u>	<u>\$ 1,131,520</u>	<u>\$ 235,320</u>	<u>\$ 1,625,420</u>

	2014				
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	2013 Actual
Other financing use:					
Transfer to General Fund	\$ -	\$ -	\$ -	\$ -	\$ 500,000
Total other financing use	-	-	-	-	500,000
Unappropriated ending fund balance	896,200	896,200	1,131,520	(235,320)	1,125,420
	<u>\$ 896,200</u>	<u>\$ 896,200</u>	<u>\$ 1,131,520</u>	<u>\$ (235,320)</u>	<u>\$ 1,625,420</u>

**CLACKAMAS RIVER WATER
SDC RESERVE 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				
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	2013 Actual
Revenues:					
Interest income	\$ 1,100	\$ 1,100	\$ 5,680	\$ 4,580	\$ 13,097
System development charges	71,000	71,000	167,096	96,096	120,998
Total revenues	72,100	72,100	172,776	100,676	134,095
Beginning fund balance available for appropriations	2,234,000	2,234,000	2,023,024	(210,976)	2,894,006
	\$ 2,306,100	\$ 2,306,100	\$ 2,195,800	\$ (110,300)	\$ 3,028,101

	2014				
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	2013 Actual
Other financing uses:					
Transfers to other funds:					
Capital Improvement Projects Fund	\$ 1,764,800	\$ 1,764,800	\$ 1,545,000	\$ 219,800	\$ 630,000
Revenue Bond Fund	255,822	255,822	255,822	-	375,077
Total other financing uses	2,020,622	2,020,622	1,800,822	219,800	1,005,077
Unappropriated ending fund balance	285,478	285,478	394,978	(109,500)	2,023,024
	\$ 2,306,100	\$ 2,306,100	\$ 2,195,800	\$ 110,300	\$ 3,028,101

CLACKAMAS RIVER WATER
RECONCILIATION OF REVENUES AND EXPENDITURES
TO CHANGES IN NET POSITION
for the years ended June 30, 2014 and 2013

	2014	2013
	Combined	Combined
Revenues	\$ 9,744,215	\$ 8,807,497
Expenditures	10,357,377	8,508,266
	<u>(613,162)</u>	<u>299,231</u>
Add (deduct) items to reconcile to change in net position on a GAAP basis:		
Expenditures capitalized	3,224,241	1,343,941
Loss on disposal of capital assets	(562)	
Payment of bond principal	340,000	535,000
Amortization of discounts and related deferrals	(15,776)	8,736
Decrease in accrued interest payable on long-term debt	(1,772)	(2,675)
Decrease in other receivables	-	(110,611)
Depreciation	<u>(1,846,508)</u>	<u>(1,853,297)</u>
Change in net position	<u>\$ 1,086,462</u>	<u>\$ 220,327</u>

STATISTICAL SECTION



Clackamas River Water

**CLACKAMAS RIVER WATER
STATISTICAL SECTION
(Unaudited)**

This part of Clackamas River Water's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and supplementary information. This information has not been audited by the independent auditors.

Contents	Page
Financial Trends These schedules contain trend information that may assist the reader in assessing the District's financial performance by placing it in historical perspective	41
Revenue Capacity These schedules contain information that may assist the reader in assessing the District's most significant local revenue source, the District water rate.	45
Debt Capacity This schedule present information that may assist the reader in analyzing the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	52
Economic and Demographic Information These schedules offer economic and demographic indicators that may assist the reader in understanding the environment in which the District's financial activities take place.	54
Operating Information These schedules contain service data that may assist the reader in understanding how the information in the District's financial report relates to the services the District provides and the activities it performs.	58

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

CLACKAMAS RIVER WATER
SCHEDULE OF NET POSITION BY COMPONENT
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Net Investment in Capital Assets	Restricted / Expendable	Unrestricted	Total Net Position
2014	\$ 46,859,257	\$ 4,977,188	\$ 4,000,703	\$ 55,837,148
2013	45,127,061	6,632,843	2,990,782	54,750,686
2012	45,093,351	7,717,351	1,719,657	54,530,359
2011	44,422,001	9,381,946	1,928,663	55,732,610
2010	44,280,046	10,098,314	2,997,543	57,375,903
2009	42,989,749	10,354,518	3,352,570	56,696,837
2008	42,072,018	10,363,827	3,416,599	55,852,444
2007	42,643,916	9,599,287	3,868,193	56,111,396
2006	41,483,928	9,007,785	3,009,497	53,501,210
2005	40,597,715	9,438,437	2,741,015	52,777,167

Source: Clackamas River Water Comprehensive Annual Financial Reports and Financial Statements

CLACKAMAS RIVER WATER
CHANGE IN NET POSITION
Last Ten Fiscal Years

	2014	2013	2012	2011	2010
Operating Revenues:					
Water Sales	\$ 8,815,333	\$ 8,035,375	\$ 6,760,994	\$ 6,522,923	\$ 6,885,983
Other	203,484	294,236	161,270	272,539	278,816
Total operating revenues	9,018,817	8,329,611	6,922,264	6,795,462	7,164,799
Operating Expenses:					
Water Resources	2,568,488	2,591,089	2,441,134	2,486,907	2,186,667
System Operations	1,461,265	1,332,091	1,378,394	1,156,549	1,295,568
Finance, Accounting and Customer Service	972,660	867,780	945,548	939,928	923,743
Administrative Services	1,711,775	1,563,516	1,647,006	1,641,516	1,808,687
Engineering	465,458	424,690	425,856	793,297	404,518
Board of Commissioners	129,577	182,102	181,797	313,248	138,314
CRWSC Activity	984				
Overhead and equipment charges allocated and capitalized	(240,708)	(147,856)	(148,095)	(207,086)	(147,025)
Depreciation	1,846,508	1,853,297	1,824,342	1,845,315	1,707,244
Total operating expenses	8,916,008	8,666,709	8,695,982	8,969,674	8,317,716
Operating income:	102,809	(337,098)	(1,773,718)	(2,174,212)	(1,152,917)
Nonoperating revenues (expense)					
Federal award and other	393,909	70,000	35,383	141,927	624,809
Investment earning on cash equivalents	41,317	45,131	46,405	56,489	78,123
Interest income from note receivable		5,169	7,241	8,311	9,319
Rental income	101,924	99,130	96,417	92,284	84,775
Other	21,151	26,847	53,133	18,137	174,318
Gain (loss) from disposal of capital assets	(562)		(18,226)	(52,849)	-
Interest exepense (net)	(47,172)	(77,039)	(75,492)	(112,700)	(129,335)
Nonoperating income (expense) - net	510,567	169,238	144,861	151,599	842,009
Net Income before Capital Contributions	613,376	(167,860)	(1,628,857)	(2,022,613)	(310,908)
CAPITAL CONTRIBUTIONS	473,086	388,187	426,606	379,320	989,974
Change in Net Position, prior period adjustments					
CHANGE IN NET POSITION	\$ 1,086,462	\$ 220,327	\$ (1,202,251)	\$ (1,643,293)	\$ 679,066

Source: Clackamas River Water Comprehensive Annual Financial Reports and Financial Statements

CLACKAMAS RIVER WATER
CHANGE IN NET POSITION
Last Ten Fiscal Years

	2009	2008	2007	2006	2005
Operating Revenues:		Restated	Restated		
Water Sales	\$ 7,119,235	\$ 6,718,938	\$ 7,021,874	\$ 6,686,744	\$ 6,568,473
Other	344,102	172,709	48,668	156,899	168,863
Total operating revenues	7,463,337	6,891,647	7,070,542	6,843,643	6,737,336
Operating Expenses:					
Water Resources	2,188,474	2,126,837	2,255,314	2,302,767	2,019,876
System Operations	1,460,683	1,344,771	2,044,612	1,505,837	1,717,183
Finance, Accounting and Customer Service	-	-	-	-	-
Administrative Services	2,407,023	2,455,521	2,194,696	1,659,435	1,587,035
Engineering	367,106	336,193	-	-	-
Board of Commissioners	-	-	-	-	-
Overhead and equipment charges allocated and capitalized	(201,908)	(243,474)	(327,584)	(189,456)	(323,202)
Depreciation	1,727,249	1,634,644	1,681,648	1,842,586	1,949,199
Total operating expenses	7,948,627	7,654,492	7,848,686	7,121,169	6,950,091
Operating income:	(485,290)	(762,845)	(778,144)	(277,526)	(212,755)
Nonoperating revenues (expense)					
Federal award and other	925,798	-	197,209	-	-
Investment earning on cash equivalents	257,588	565,552	602,640	430,938	212,859
Interest income from note receivable	10,279	15,393	-	-	-
Rental income	68,647	69,783	81,461	71,731	76,438
Other	75,582	(7,239)	-	-	34
Gain (loss) from disposal of capital assets	(523)	-	538,119	(11,788)	(405,264)
Interest expense (net)	(271,626)	(292,281)	(251,785)	(256,322)	(322,733)
Nonoperating income (expense) - net	1,065,745	351,208	1,167,644	234,559	(438,666)
Net Income before Capital Contributions	580,455	(411,637)	389,500	(42,967)	(651,421)
CAPITAL CONTRIBUTIONS	263,938	776,170	1,290,622	767,010	789,989
Change in Net Position, prior period adjustments		(623,485)	930,064		
CHANGE IN NET POSITION	\$ 844,393	\$ (258,952)	\$ 2,610,186	\$ 724,043	\$ 138,568

Source: Clackamas River Water Comprehensive Annual Financial Reports and Financial Statements

CLACKAMAS RIVER WATER
CAPITAL CONTRIBUTIONS BY SOURCE
Last Ten Fiscal Years

Fiscal Year Ended June 30,	System Development Charges	Connection Fees	Contributions In Aid	Contributed Infrastructure	Total Capital Contributions
2014	\$ 167,096	\$ 85,370	\$ -	\$ 220,620	\$ 473,086
2013	120,998	90,881	-	176,308	388,187
2012	85,911	65,695	-	275,000	426,606
2011	187,501	68,732	-	123,087	379,320
2010	107,380	21,779	-	860,815	989,974
2009	157,958	-	-	105,980	263,938
2008	461,316	-	-	314,854	776,170
2007	672,825	135,525	23,221	459,051	1,290,622
2006	403,227	59,257	6,137	298,389	767,010
2005	409,437	75,664	24,338	287,668	797,107

Source: Clackamas River Water Records

**CLACKAMAS RIVER WATER
COMPARISON OF WATER SOLD TO
WATER SUPPLIED IN HUNDRED CUBIC FEET
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	North Service Area			South Service Area				Total		
	Water Sold	Water Produced	Ratio	Water Sold	Water Purchased	Water Produced	Ratio	Water Sold	Water Supplied	Ratio
2014	3,050,963	3,318,539	91.9	639,324	788,754	-	81.1	3,690,287	4,107,293	89.8
2013	3,158,722	3,412,055	92.6	684,871	666,301	129,803	86.0	3,843,593	4,208,159	91.3
2012	3,016,986	3,265,033	92.4	575,567	599,662	107,779	81.4	3,592,553	3,972,475	90.4
2011	3,074,421	3,211,932	95.7	615,018	570,450	119,835	89.1	3,689,439	3,902,217	94.5
2010	3,149,458	3,242,080	97.1	699,150	593,046	138,396	95.6	3,848,608	3,973,522	96.9
2009	3,302,360	3,445,896	95.8	751,157	621,279	165,088	95.5	4,053,517	4,232,263	95.8
2008	3,448,453	3,505,731	98.4	711,238	654,617	128,934	90.8	4,159,691	4,289,282	97.0
2007	3,843,436	3,906,911	98.4	787,490	818,973	-	96.2	4,630,926	4,725,884	98.0
2006	3,964,378	4,095,829	96.8	675,494	720,154	-	93.8	4,639,872	4,815,983	96.3
2005	4,461,143	4,514,610	98.8	655,621	665,795	-	98.5	5,116,764	5,180,405	98.8

Source: Clackamas River Water Records

CLACKAMAS RIVER WATER
DISTRIBUTION OF WATER SALES IN DOLLARS
Last Ten Fiscal Years

Water Sold In Dollars

Fiscal Year			Direct				
Ended		Percent	Industrial /	Percent	Direct	Percent	
June 30,	Wholesale(2)	of Total	Commercial (2)	of Total	Residential (2)	of Total	Total (1)
2014	\$ 755,849	8.8	\$ 3,756,360	43.5	\$ 4,118,075	47.7	\$ 8,630,283
2013	581,317	7.3	3,598,923	45.2	3,778,375	47.5	7,958,615
2012	573,886	8.6	2,995,837	44.6	3,139,897	46.8	6,709,620
2011	571,809	8.6	2,894,595	43.7	3,152,192	47.6	6,618,597
2010	575,930	8.2	3,031,481	43.1	3,430,538	48.7	7,037,948
2009	575,773	7.9	3,208,880	44.0	3,511,930	48.1	7,296,583
2008	575,169	8.7	2,949,065	44.6	3,090,379	46.7	6,614,614
2007	499,707	7.1	2,964,622	42.2	3,564,456	50.7	7,028,785
2006	641,186	9.8	2,791,510	42.5	3,130,500	47.7	6,563,196
2005	982,259	14.4	2,756,773	40.4	3,084,320	45.2	6,823,351

(1) Total water sold does not include water sold on fire hydrant permits. Total Water Revenue on The Statement of Revenues, Expenses, and Changes in Net Position includes water sales on fire hydrant permits and accrued unbilled water sales.

(2) Water sold amounts updated to reflect Eden computer system records.

Source: Clackamas River Water Records

CLACKAMAS RIVER WATER
DISTRIBUTION OF WATER SOLD BY VOLUME
Last Ten Fiscal Years

Water Sold in Hundred Cubic Feet

Fiscal Year			Direct				
Ended		Percent	Industrial /	Percent	Direct	Percent	
June 30,	Wholesale (1)	of Total	Commercial (1)	of Total	Residential (1)	of Total	Total
2014	1,223,505	33.2	1,344,349	36.4	1,122,433	30.4	3,690,287
2013	1,223,865	31.8	1,443,102	37.5	1,176,626	30.6	3,843,593
2012	1,239,597	33.3	1,369,885	36.8	1,112,951	29.9	3,722,433
2011	1,224,000	33.2	1,228,974	33.3	1,236,464	33.5	3,689,438
2010	1,223,821	31.8	1,270,692	33.0	1,354,095	35.2	3,848,608
2009	1,222,618	30.2	1,357,619	33.5	1,473,280	36.3	4,053,517
2008	1,160,710	27.9	1,595,740	38.4	1,403,241	33.7	4,159,691
2007	1,516,268	32.6	1,728,880	37.2	1,402,506	30.2	4,647,654
2006	1,663,820	35.8	1,753,191	37.7	1,229,246	26.5	4,646,257
2005	2,160,491	42.2	1,709,794	33.4	1,246,479	24.4	5,116,764

(1) Water sold amounts updated to reflect Eden computer system records.

Source: Clackamas River Water Records

CLACKAMAS RIVER WATER APPLICATIONS FOR WATER SERVICE

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Applications for Water Service			Total Applications for Water Service
	Domestic Residential (3/4" Meter)	Domestic Commercial (1" Meter & Up)	Fire Protection (All Sizes)	
2014	30	8	4	42
2013	26	3	2	31
2012	18	5	1	24
2011	56	6	1	63
2010	39	2	3	44
2009	53	4	3	60
2008	79	18	2	99
2007	78	16	4	98
2006	102	10	1	113
2005	146	10	4	160

Source: Clackamas River Water Records

CLACKAMAS RIVER WATER
NUMBER OF WATER CUSTOMERS BY TYPE
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Residential	Mult Family /Trailer Parks	Commerical	Industrial	Fire Service	Other	Total
2014	10,623	222	802	52	330	148	12,177
2013	10,739	222	802	52	328	153	12,296
2012	11,595	229	800	57	328	182	13,191
2011	11,495	235	820	55	327	184	13,116
2010	11,484	230	815	56	324	184	13,093
2009	11,371	235	822	55	317	184	12,984
2008	11,391	234	834	59	304	184	13,006
2007	11,468	246	817	56	311	227	13,125
2006	11,529	252	776	59	329	194	13,139
2005	11,469	250	730	59	321	197	13,026

Source: Clackamas River Water Records

CLACKAMAS RIVER WATER MONTHLY SERVICE CHARGE

Residential Users - North and South Service Areas

Fiscal Year Ended June 30,	Minimum Monthly Service Charge	Rate for First CCF (1)
2014	\$ 13.45	\$ 1.90
2013	9.54	1.90
2012	8.35	1.66
2011	5.85	1.60
2010	5.85	1.60
2009	5.85	1.60
2008	5.85	1.60
2007	5.85	1.60

Residential Users - North Service Area

Fiscal Year Ended June 30,	Minimum Monthly Service Charge	Rate for First CCF (1)
2006	5.85	1.15
2005	5.85	1.15

Residential Users - South Service Area

Fiscal Year Ended June 30,	Minimum Monthly Service Charge	Rate for First CCF
2006	5.85	2.35
2005	5.85	2.35

(1) CCF means one hundred cubit feet

One hundred cubit feet of water is equal to approximately 748 gallons

Source: Clackamas River Water Records

**CLACKAMAS RIVER WATER
LARGEST WATER CONSUMERS
FOR THE YEARS ENDED JUNE 30, 2014 and 2005**

Consumer	2014		2005	
	Consumption (Hundred Cubic Feet)	Percent of District Total	Consumption (Hundred Cubic Feet)	Percent of District Total
Wholesale:				
Sunrise Water Authority	1,223,505	33.15%		
North Clackamas County Water Commission	-	-	1,355,154	26.5%
City of Gladstone	-	-	561,517	11.0
Oak Lodge Water District	-	-	243,820	4.8
Commercial:				
Precision Castparts Corporation	142,026	3.8	172,345	3.4
Safeway	66,658	1.8	94,292	1.8
Clackamas Town Center	26,131	0.7	32,380	0.6
Fred Meyer, Inc.	27,436	0.7	38,947	0.8
N Clackamas Parks & Rec	21,370	0.6	22,510	0.4
Interstate Meats	17,770	0.5	18,331	0.4
Unified Western Grocers	14,691	0.4	19,532	0.4
Larsen Creamery Inc	12,805	0.3	-	0.0
Kaiser FDN Hospital	-	-	95,743	1.9
Multi-family:				
Country Village Mobile Home Park	42,503	1.2	53,301	1.0
Monterey Springs Apartments(Wellington/Wa	25,592	0.7	35,052	0.7
Lake Crest Appartment (GSL Properties)	29,921	0.8	31,251	0.6
Overlook at Causey	22,519	0.6	18,957	0.4
Johnson City	23,343	0.6	24,942	0.5
Clackamas Trails	25,030	0.7	24,569	0.5
Easton Ridge Appartments	16,628	0.5	-	-
Reflections at Happy Valley	16,985	0.5		0.0
Giadan K Estates	14,821	0.4	15,570	0.3
Oak Acres Mobile Home Park	11,608	0.3	25,300	0.5
The Fountains at Town CTR	10,755	0.3	13,685	0.3
Crown Court Apartments	-	-	26,012	0.5
All Other Consumers	1,898,190	51.4	2,193,554	42.9
	3,690,287	100.0%	5,116,764	100.0%

Effective March 1, 2001, Clackamas River Water consolidated billings to these entities into the North Clackamas County Water Commission, which supplies water to Oak Lodge Water District and Sunrise Water Authority.

Effective October 3, 2005, City of Gladstone joined the North Clackamas County Water Commission.

Source: Clackamas River Water Records

CLACKAMAS RIVER WATER
Ratio of Bonded Debt to Personal Income
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Revenue Bonds (1)	District Bonded Debt per Capita (2)	Clackamas County Per Capita Income (3)	As a Share Of Personal Income (4)
2014	\$ 2,790,000	\$ 55.80	N/A	N/A
2013	3,130,000	62.60	48,286	0.13%
2012	3,665,000	73.30	48,286	0.15%
2011	4,175,000	83.50	46,275	0.18%
2010	4,680,000	93.60	44,954	0.21%
2009	5,210,000	104.20	43,646	0.24%
2008	5,625,000	112.50	44,803	0.25%
2007	6,015,000	120.30	43,965	0.27%
2006	6,385,000	127.70	41,378	0.31%
2005	6,740,000	134.80	39,729	0.34%

Notes:

- (1) Revenue bonds are the only kind of bonded debt
- (2) Estimated District population 50,000
- (3) Data is for calendar year.
- (4) Clackamas County personal income data

Source: Clackamas River Water Annual Financial Statements and Records
US Census Bureau, American Community Survey
Department of Human Resources, State of Oregon,
Employment Division, Clackamas County

**CLACKAMAS RIVER WATER
REVENUE PLEDGED COVERAGE
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)			
				Principal	Interest	Total	Coverage
2014	\$ 9,577,118	\$ 7,111,473	\$ 2,465,645	\$340,000	\$106,460	\$446,460	5.52
2013	\$ 8,575,888	\$ 6,890,451	\$ 1,685,437	\$535,000	\$119,585	\$654,585	2.57
2012 (4)	8,160,845	6,965,358	1,195,487	515,000	135,260	650,260	1.84
2011 (4)	7,944,110	7,124,369	819,741	505,000	124,142	629,142	1.30
2010	7,979,143	6,481,137	1,498,006	435,000	269,461	704,461	2.13
2009	8,816,967	6,509,263	2,307,704	415,000	290,820	705,820	3.27
2008 (Restated)	8,020,164	6,335,841	1,684,323	390,000	328,610	718,610	2.34
2007 (Restated)	9,162,796	6,418,823	2,743,973	370,000	328,610	698,610	3.93
2006	7,749,539	5,546,693	2,202,846	355,000	345,470	700,470	3.14
2005	7,436,330	5,728,889	1,707,441	335,000	361,173	696,173	2.45
2004	8,297,753	5,504,181	2,793,572	315,000	375,640	690,640	4.04

Notes:

- (1) Total revenues, including interest and system development charges. Excludes local improvement district assessments.
- (2) Total operating expenses exclusive of depreciation, and includes loss from sales of assets and interest expense.
- (3) Includes principal and interest of revenue bonds only. It does not include general obligation bonds funded by taxes or revenues.
- (4) Total revenues includes transfer from Rate Stabilization Reserve Fund during first quarter of fiscal year of following fiscal year.

Source: Clackamas River Water Annual Financial Statements and Records

**CLACKAMAS RIVER WATER
DEMOGRAPHIC STATISTICS
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Population (1)	Personal Income (1) (thousands of dollars)	Per Capita Personal Income (2)	Portland Metropolitan Area Unemployment Rate (3)
2014	N/A	N/A	N/A	6.1
2013	388,263	N/A	N/A	7.4
2012	383,857	18,535,004	48,286	8.5
2011	379,984	17,583,715	46,275	9.9
2010	381,775	17,162,313	44,954	10.7
2009	379,845	16,578,715	43,646	9.3
2008	376,660	16,875,498	44,803	5.4
2007	372,270	16,366,851	43,965	5.0
2006	367,040	15,187,381	41,378	5.0
2005	356,250	14,153,456	39,729	5.9

(1) For Clackamas County.

(2) Data is for calendar years.

(3) Includes Clackamas, Multnomah, Washington, and Yamhill Counties in Oregon.

Sources: US Census Bureau, American Community Survey
Department of Human Resources, State of Oregon,
Employment Division, Clackamas County

**CLACKAMAS RIVER WATER
MAJOR EMPLOYERS WITHIN CRW DISTRICT
FOR THE YEARS ENDED JUNE 30, 2014 and 2005**

Name	Product or Service	2014 Estimated Employment	2005 Estimated Employment
Precision Castparts Corp.	Investments Castings	2,600	2,075
Fred Meyer, Inc.	Distribution Center	1,200	1,100
Safeway Stores, Inc.	Distribution Center and Bakery	1,290	650
Warn Industries - Portland	4-Wheel Drive After Market Equipment	850	526
United Grocers, Inc.	Warehouse/Offices/Retail Trade	630	1,400
Camp Withycombe	Oregon National Guard/Oregon Military	610	270
Sears	Department Store	400	300
Oregon Iron Works	Steel Fabrication	400	150
Pacific Seafood, Inc	Distribution Center	300	N/A
Costco	Shopping Club	300	N/A
J.C. Penney Co.	Department Store	200	300
Gourmet Award Foods NW/KeHE	Distribution Center	250	500
Nordstrom	Department Store	225	350
VCA Animal Hospital	Veternary services	150	N/A

Source: North Clackamas County Chamber of Commerce
Source: ReferenceUSA

**CLACKAMAS RIVER WATER
ADMINISTRATIVE AND OPERATIONAL
FULL TIME EQUIVALENT EMPLOYEES
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Administrative	Operational	Total
2014	14	26	40
2013	13	26	39
2012	13	26	39
2011	13	24	37
2010	13	24	37
2009	9	25	34
2008	15	21	36
2007	13.5	22	35.5
2006	9.5	24	33.5
2005	9.5	24	33.5

Source: Clackamas River Water Payroll Records

CLACKAMAS RIVER WATER
Customer Account Write Offs as a Percentage of Sales
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Water Sales	Write Offs	% of Sales
2014	\$ 8,815,333	\$ 8,030	0.09%
2013	8,035,375	11,090	0.14%
2012	6,760,994	9,185	0.14%
2011	6,522,923	6,649	0.10%
2010	6,885,983	9,396	0.14%
2009	7,119,235	7,985	0.11%
2008	6,718,938	5,377	0.08%
2007	7,021,874	3,891	0.06%
2006	6,686,744	1,646	0.02%
2005	6,568,473	3,357	0.05%

Source: Clackamas River Water Records

**CLACKAMAS RIVER WATER
OPERATING INDICATORS
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Size of Watershed Square Miles	(1) Average Daily Production (MGD) (2)	(1) Peak Day Production (MGD) (2)	Miles of Water Mains (2)	Water Storage Capacity (MGD) (3)	Number of Pump Stations
2014	942	6.81	16.18	262	24.45	10
2013	942	8.63	12.57	262	24.35	10
2012	942	8.14	13.43	262	24.35	10
2011	942	8.00	12.43	210	23.05	10
2010	942	8.14	14.75	210	23.05	10
2009	942	8.67	13.58	210	23.05	10
2008	942	8.79	13.65	210	23.05	10
2007	942	8.01	16.22	210	23.05	10
2006	942	8.40	15.52	210	22.95	10
2005	942	9.30	16.50	210	22.95	10

(1) Average Daily Production from Clackamas River Water's Water Treatment Plant, Well 1, and South Fork Water Board

(2) Miles of water mains updated after completion of map conversion

(3) MGD is Million Gallons per Day

Source: Clackamas River Water Operations and Engineering Records

AUDIT COMMENTS & DISCLOSURES REQUIRED BY STATE REGULATIONS



Clackamas River Water

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

Board of Commissioners
Clackamas River Water

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the basic financial statements of Clackamas River Water District (the "District"), which comprise the statement of net position as of June 30, 2014 and 2013, and the related statements of revenue, expense, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements and have issued our report thereon dated November 12, 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.

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

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, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance of which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

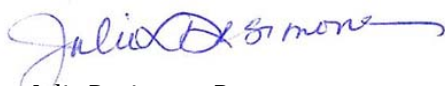
We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to:

- The accounting records and related internal control structure.
- The use of various depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption, and execution of the annual budgets for fiscal years 2014 and 2015.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

In connection with our testing nothing came to our attention that caused us to believe the District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

Purpose of this Report

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



Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
November 12, 2014