

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal years ended
June 30, 2012 and 2011

CLACKAMAS RIVER WATER
CLACKAMAS, OREGON

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal years ended June 30, 2012 and 2011

Prepared by:

Clackamas River Water
Finance, Accounting and Customer Service Department

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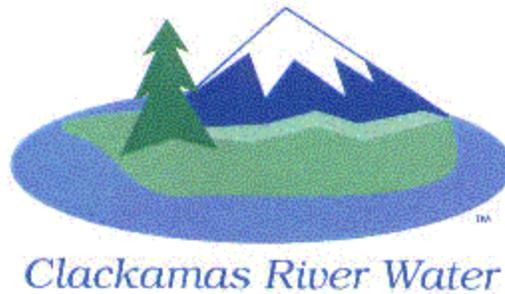
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INTRODUCTORY
SECTION



Clackamas River Water



December 28, 2012

Board of Commissioners of
Clackamas River Water
Clackamas, Oregon

We are pleased to submit the Comprehensive Annual Financial Report for Clackamas River Water (CRW or the District) for the fiscal year ended June 30, 2012. The Finance, Accounting and Customer Service department prepared this report and the District is responsible for the accuracy, completeness, and fairness of all data presented and representations made. 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, 2012. The result of operations and cash flows for the FY 2011-2012 are also accurate.

Accounting Principles Generally Accepted 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.

This report is organized into four sections:

1. The Introductory section contains this letter of transmittal, commissioner and staff information, and other relevant data;
2. The Financial section includes our independent auditors' report, the MD&A, the basic financial statements and supplementary information;
3. The Statistical section includes a number of tables of unaudited data depicting the financial history for the past 10 years and other miscellaneous information;
4. The Compliance Reports section contains the audit comments and disclosures required by state regulations.

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 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.

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 north service area 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 within the north service area, to a few retail customers outside the boundaries, and, at June 30, 2012, to Sunrise Water Authority (SWA) on a wholesale basis.

The south service area is predominately rural. CRW buys the majority of 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. The balance of the water supplied is from the well operated by CRW. The well water is blended with water from South Fork Water Board prior to distribution to customers. CRW operates and maintains the water distribution system in the south service area.

General Framework

In its first year (1995), CRW took significant steps to establish the direction and manner in which it planned to progress as an organization. At the first business meeting in July 1995, the Board adopted a host of policies, procedures, rules and regulations. A set of vision, mission and commitment statements were later created to communicate, internally and externally, established areas of importance to the new organization and how the operations of the District will be conducted.

The guidance of these statements is fundamental to another major activity that affects the essence of how CRW staff functions. "Organizational development" is the label used to describe the transformation to a work environment where people at all levels of CRW interact with one another and decisions are made at lower levels. Meaningful contributions from all parts of the organization are essential to its success and effectiveness. This cultural change will position CRW to skillfully face the operational challenges that will be encountered in the 21st century.

Economic Condition and Outlook

Preservation of a healthy financial condition and building upon it are the 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.

Significant elements in maintaining a healthy financial condition include:

1. Forecasting and managing system improvements and other capital expenditures;

2. Garnering financial input from advisory groups and other interested parties;
3. Optimizing operational costs to meet customer needs
4. Maintaining adequate revenue resources to meet the above objectives.

The water system master plan completed in early 1998 included a host of water system improvements to be constructed over the next 20 years and is annually reviewed to reflect changes as identified. These listed improvements and their updates 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 list has been updated for recent changes and project completions. The 2005 water system master plan update incorporates changes and additional projects to the 1998 master plan.

Capital improvement projects are combined each year with anticipated capital purchases to update a capital improvement program (CIP) that is a significant element within the 10-year financial plan. Revenues from system development charges (SDCs) will provide 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 in July 2012. In recent years revenue from SDC's has been down, so the reserve balance of the account is reduced due to planned expenditures for current CIP per the water system master plan.

Water system costs are influenced by several factors. Some of the notable issues are:

- Additional requirements contained in the 1996 reauthorization of the Federal Safe Drinking Water Act, included 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. Water rate structures employed for customers 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.

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 monthly consumption exceeds one and one-half times (1.5 times) their AWC (the average monthly consumption recorded during the previous December through March), they are charged at a higher rate. The rate for the volume used beyond 1.5 times the AWC mark is 24.5 percent higher than the lower 'block' rate.

CRW's overall system provides water to approximately 13,200 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 with an annual rate of about 1 percent. The distribution of CRW's customers between urban and rural areas is relatively consistent with the rest of the county at about two-thirds urban and one-third rural.

CRW growth of new housing and business has slowed during this recession. Examples of growth that required new water services within CRW's service area during the year include:

- 23 new residential and commercial facilities. About 18 of these connections were single family residential;
- 1 fire service installation.

The national economic trends of high unemployment, business failures and other negative economic indicators effects CRW. In addition, Urban Growth Boundary adjustments by Metro also affect growth within CRW's service territory.

Another trend is that household water usage has declined over the past decade as customers replace less water efficient fixtures and appliances with newer, more efficient ones.

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.

CRW's contract with SWA, its wholesale customer, 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 customer using one-third of the water sold and providing about 9 percent of the District's water sales revenue during fiscal year 2011-12.

SWA was formed in 2000 by Mt. Scott Water District and Damascus Water District. SWA is part of the North Clackamas County Water Commission (NCCWC) which began operations of its own water treatment facility in 1999. This reduced its reliance on CRW for water supply. Debt service coverage ratios have been predicted on lower revenue projections. Discussion about potential for additional supply from CRW to utilities is covered in the following section.

Major Initiatives

Beyond the actions described earlier, CRW sustains the ideology held by the two former districts 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 and monitoring legislation affecting water service and delivery;
- Coordination of planning 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 neighboring entities;
- In 1991, CRW purchased 25 acres of land adjacent to the current treatment plant property in anticipation of future growth and expansion needs.

Many of these and resultant activities have carried on, as well as efforts to further influence protection and use of the watershed. The District continues its role in regional water supply, participating in the Regional Water Providers Consortium and implementation of the Regional Water Supply Plan.

CRW continues to explore areas to enhance coordination of water supplies and create opportunities for shared use of existing and planned facilities.

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 2011-2012, CRW spent over \$1.12 million on its capital program, including numerous water line installations, upgrades to the water treatment plant, 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.

Water main replacements, along with a leak detection and meter replacement program continue to reduce water losses in the District. A transmission main replacement project was completed during the FY 2011-2012 that further reduced losses from leaks. Current water efficiency statistics are 90.4 percent for the water distribution system with this zone now at a 94.5 percent water efficiency rate.

Internal Accounting Controls

CRW 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. When establishing or reviewing controls, the cost of the control and the benefit derived are evaluated. 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 processes.

Accounting System and Budgetary Control

CRW's accounting records are maintained on a fund accounting basis – as required by state statute. For financial reporting purposes, the financial statements are presented on an enterprise fund basis.

For budgetary and legal purposes, activities are accounted for in the funds described below:

- General Fund – Water resources, system operations and administrative services, finance, accounting and customer service, engineering, and board of commissioners departments;
- Capital Improvement Projects Fund – Construction activity of the District. Construction activity includes additions, replacements, and improvement for storage, transmission, distribution, supply and facilities of the District;
- Capital Reserve Fund – Accumulation of reserves for future District growth, system expansion and replacement;
- Rate Stabilization Reserve Fund – Accumulation of reserves for rate stabilization for annual revenues;
- SDC Reserve Fund – Accumulation of reserves for future District growth, system expansion and replacement;
- Revenue Bond Fund – Payment of District revenue bond principal and interest expenditures.

CRW annually prepares a budget, 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 2012, the Board approved a budget transfer of \$100,000 from the Materials and Services appropriation to the Personnel Services appropriation within the General Fund.

Operations Policy

It is District policy to operate the 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 by revenue from water sales. Thus, although it has the authority to do so and previously levied a small tax to retire debt, CRW does not currently use property taxes to finance general operations.

Another element of the District's operations policy is to periodically review both wholesale and retail rates to ensure congruence between policy and financial conditions. This review provision is built into CRW's wholesale contracts. In March of 2012 the Board approved a rate increase to provide an increase in revenue of approximately \$800,000. The rate increase was effective with the June 30, 2012 bills, just prior to year end.

Cash Management

CRW has an internal investment procedure and policy to provide direction and consistency to its cash management. The District uses the Oregon State Treasurer's Short-term Investment Fund, time certificates of deposit, banker's acceptances, repurchase agreements, and U.S. Government Agency Notes. In order to qualify for District investments, time deposits must be collateralized at 25 percent of the value of the investment and securities must be among those that are approved by the State Treasurer in accordance with Oregon Revised Statutes 294.035 and 294.046. Yields on investments during the fiscal year ranged from .5 percent to .6 percent.

A schedule analyzing CRW's investments and their relative risk is provided within the notes to the financial statements in accordance with Governmental Accounting Standards Board's Statement No. 40 on deposit and investments risk disclosures.

Independent Audit

Oregon Revised Statutes require that the accounts and fiscal affairs of each municipal corporation be audited and examined at least once each fiscal year by a certified public accountant. CRW has complied with this requirement and the Independent Auditors' Report stating an unqualified opinion is included in the financial section of this report. This opinion attests that the financial statements present fairly, in all material respects, the financial position of CRW, that the results of operations and the cash flows are fairly stated in conformity with generally accepted accounting principles, and that the supplementary data in the financial section is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Fiduciary Operations

One pension plan and four deferred compensation programs are provided to all CRW employees. All CRW employees are participants in the State of Oregon Public Employees Retirement System (OPERS). This plan is a defined benefit pension plan in which the participating employees are required to contribute 6 percent of their base salary. Employer contributions are required by state statute and are made at actuarially determined rates adopted by the Oregon Public Employees Retirement Board. The plan is on a five-year vesting program. When employees leave CRW employment after the fifth year, they are entitled to the total amount of contributions and earnings held in their name.

The deferred compensation programs fall within the guidelines of the Internal Revenue Code section 457. The plans permit the employees to defer a portion of their salary until future years as a retirement program and are taxed only upon receipt.

Risk Management

CRW has several programs to protect against the risk of loss of life or assets. The insurance program includes the "normal" coverages subject to nominal deductibles for commercial, auto, property, but as of January 1, 2012 had increased deductible of \$50,000 per event for liability, as well as treasurer's bonding, director and officer liability, expense for water loss at reservoirs and pump stations, and personal computers. CRW is self-insured for purposes of unemployment compensation claims. Prior results have found this to be efficient and cost

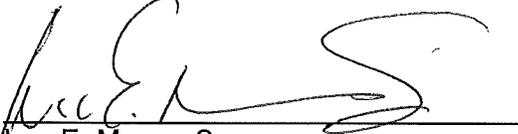
effective. CRW uses an insurance agent of record to analyze insurance needs, the types of coverage available and deductibles.

An employee safety and health committee meets monthly to review the continuing safety programs, conduct safety inspections and investigate accidents. Committee findings and recommendations are forwarded to the general manager and, if necessary, to the governing board. Results are also reviewed with CRW's insurance carrier.

Acknowledgments

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,

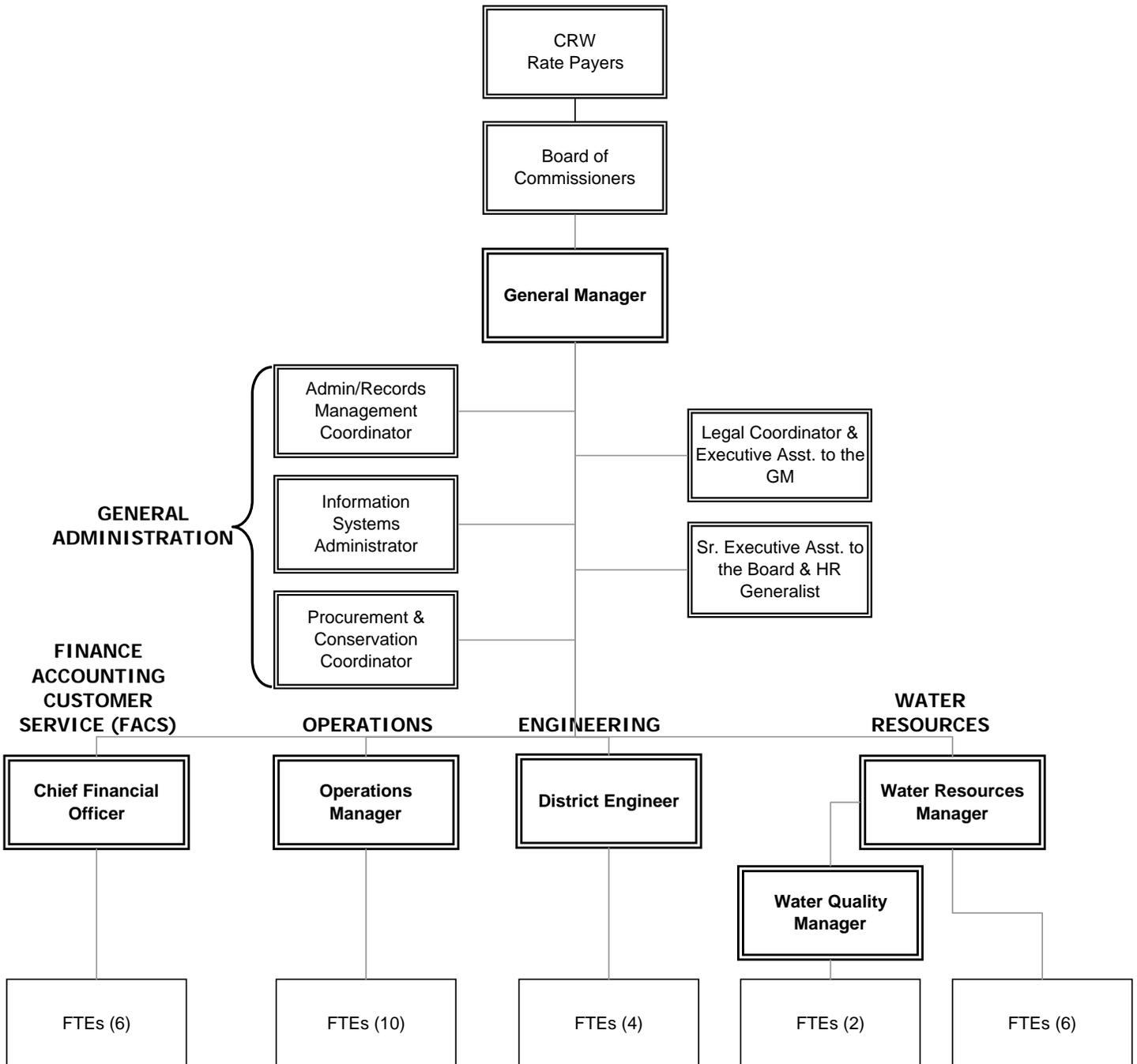


Lee E. Moore, Sr.
General Manager



Carol Bryck, CPFO, CTP
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, 2012

Name	Term Expires
Kami Kehoe, President	June 30, 2013
Barbara Kemper, Secretary	June 30, 2013
Michael Cardwell, Treasurer	June 30, 2013
Patricia Holloway, Commissioner	June 30, 2015
Grafton Sterling, 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	Manager Information Systems

FINANCIAL SECTION



Clackamas River Water

REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners
Clackamas River Water District

We have audited the accompanying statements of net assets of Clackamas River Water District (District), as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis preceding the financial statements is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the District's basic financial statements taken as a whole. The accompanying Budgetary Basis Schedules and Additional Information are presented for the purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying Introductory and Statistical sections are also not a required part of the basic financial statements but are supplementary information provided for purposes of additional analysis. We did not audit or perform any other procedures on this information and express no opinion on it.



Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
December 28, 2012

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 and 2011**

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, 2012. 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, 2012 by \$54,530,359 (net assets). Of this amount, \$1,719,657 (unrestricted net assets) may be used to meet ongoing obligations and \$7,714,351 (restricted or reserved net assets) are held for debt service and capital projects. The balance \$45,093,351 is invested in capital assets, net of related debt.
- The total net assets decreased by \$1,204,251 from the prior year. The primary reason for the decrease is due to the continued economic downturn, the cooler than average weather pattern during the summer season, and a decrease in federal awards. The total net assets decreased by \$1,643,293 in 2011 and increased by 679,066 in 2010. The primary reason for the decrease in 2011 was a decrease in federal awards, cooler than average weather pattern during the summer and an increase in operating expense and in 2010 the increase was primarily to investment in capital assets without a corresponding increase in related debt.
- Total Operating Revenues were \$6,922,264, an increase of \$126,802 from 2011, which in turn decreased \$369,337 from 2010. The increase in the current year is primarily due to the rate increase effective May 1, 2012 after the decrease in prior years from the continued economic slowdown in the region. Operating Expenses before depreciation totaled \$6,871,640, a decrease of \$252,719 from 2011, which in turn increased \$513,887 in 2010. The main contributing factors include decreased watershed management costs, legal expense and other audit work partial offset by increases inventory, pension and health insurance costs over 2011. In the prior year expenses increased due to cost of water purchases and treatment, legal expense, materials and capital outlay expenditures. The difference between revenues and operating expenses resulted in a Net Operating Loss totaling \$1,773,718.
- The District has capital assets net of accumulated depreciation of \$48,870,246 at June 30, 2012. This is an increase of \$147,936 from 2011, which in turn decreased \$376,459 from 2010. The financial statements of the District also recognized \$1,824,342 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. The basic financial statements include the financial statements and the notes to 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 District's annual report consists of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. The

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2012 and 2011**

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

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the District's assets have changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that do not effect the cash flow until future fiscal periods. The Statement of Cash Flows presents information showing how the District's cash flow changed as a result of current year operations. This statement is prepared using the direct method and includes the reconciliation of operating income to net cash provided by operating activities (indirect method) as required by GASB 34.

The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

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 finance and budgetary legal requirements.

Financial Analysis

A summary of the District's Statement of Net Assets is presented below.

Condensed Statement of Net Assets

	2012	2011	Difference 2011-2012	Percent Change	2010
Assets					
Current Assets	\$10,173,129	\$12,105,174	(\$1,932,045)	-16.0%	\$13,798,972
Other Assets	125,397	149,632	(24,235)	-16.2%	172,731
Capital Assets	48,870,246	48,722,310	147,936	0.3%	49,098,769
Total Assets	<u>59,168,772</u>	<u>60,977,116</u>	<u>(1,808,344)</u>	-3.0%	<u>63,070,472</u>
Liabilities					
Current Liabilities	1,409,933	1,467,612	(57,679)	-3.9%	1,394,260
Non-Current Liabilities	3,228,480	3,776,894	(548,414)	-14.5%	4,300,309
Total Liabilities	<u>4,638,413</u>	<u>5,244,506</u>	<u>(606,093)</u>	-11.6%	<u>5,694,569</u>
Net Assets					
Invested in capital assets, net of related debt	45,093,351	44,422,001	671,350	1.5%	44,280,046
Restricted	7,717,351	9,381,946	(1,664,595)	-17.7%	10,098,314
Unrestricted	1,719,657	1,928,663	(209,006)	-10.8%	2,997,543
Total net assets	<u>\$54,530,359</u>	<u>\$55,732,610</u>	<u>(\$1,202,251)</u>	-2.2%	<u>\$57,375,903</u>

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2012 and 2011**

Total assets decreased for this fiscal year by \$1,808,344. Total assets were \$59,168,772, \$60,977,116 and \$63,070,472 for fiscal years ended June 30, 2012, 2011, and 2010, respectively. Current assets decreased by \$1,932,045, and capital assets increased by \$147,936 for fiscal year 2012. The primary decrease in current assets is from cash and supplies inventory which was partially offset by an increase in accounts receivable and prepaid expenses. Cash decreased due to a planned reduction in cash reserves utilized for capital projects.

Total liabilities decreased 11.6 percent during fiscal year 2012. Total liabilities were \$4,639,413, \$5,244,506 and \$5,694,569 for fiscal years ended June 30, 2012, 2011, and 2010, respectively. Current liabilities decreased by \$57,679 (3.9 percent) during fiscal year 2012. This decrease was due to accounts payable accruals at the end of fiscal year 2012. Non-current liabilities decreased by \$548,414 (14.5 percent) due to payments made on the 2009 Revenue Bonds. No new debt was issued in fiscal year 2012.

Net assets may serve as a useful indicator of the District's financial position. As of June 30, 2012, 2011, and 2010, assets exceeded liabilities by \$54,530,539, \$55,732,610, and \$57,375,903, respectively. This was a decrease of \$1,202,252 (2.2 percent) over fiscal year 2011. This is due in part to an increase of \$671,350 (1.5 percent) invested in capital assets, net of related debt totaling \$45,093,351. A decrease of \$1,664,595 (17.7 percent) occurred in restricted net assets totaling \$7,714,801 for 2012, when compared to fiscal year 2011. These assets are considered restricted or reserved assets and account for 14.1 percent of the total net assets. Unrestricted net assets are normally the part of net assets used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. These assets totaled \$1,719,656 at June 30, 2012, a decrease of \$209,007 (10.8 percent) when compared to fiscal year 2011.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2012 and 2011**

Summary of Change in Revenues and Expenses and Net Assets

	2012	2011	Difference 2011-2012	Percent Change	2010
Operating Revenues:					
Water sales	\$6,760,994	\$6,522,923	\$238,071	3.6%	\$6,885,983
Other	161,270	272,539	(111,269)	-40.8%	278,816
Total Operating Revenues	<u>6,922,264</u>	<u>6,795,462</u>	<u>126,802</u>	1.9%	<u>7,164,799</u>
Nonoperating Revenues:					
Federal awards & other	35,383	141,927	(106,544)	-75.1%	624,809
Interest Earnings	46,405	56,489	(10,084)	-17.9%	78,123
Rental Income	96,417	92,284	4,133	4.5%	84,775
Other	60,374	26,448	33,926	128.3%	183,637
Total Revenues	<u>7,160,843</u>	<u>7,112,610</u>	<u>48,233</u>	0.7%	<u>8,136,143</u>
Operating Expenses					
Water Resources	2,441,134	2,486,907	(45,773)	-1.8%	2,186,667
System Operations	1,378,394	1,156,549	221,845	19.2%	1,295,568
Finance, Accounting and Customer Service	945,548	939,928	5,620	0.6%	923,743
Administrative Services	1,647,006	1,641,516	5,490	0.3%	1,808,687
Engineering	425,856	793,297	(367,441)	-46.3%	404,518
Board of Commissioners	181,797	313,248	(131,451)	-42.0%	138,314
Less:					
Overhead, equipment and labor capitalized	(148,095)	(207,086)	58,991	-28.5%	(147,025)
Subtotal	<u>6,871,640</u>	<u>7,124,359</u>	<u>(252,719)</u>	-3.5%	<u>6,610,472</u>
Depreciation	1,824,342	1,845,315	(20,973)	-1.1%	1,707,244
Loss from disposal of capital assets	18,226	52,849	(34,623)	-65.5%	-
Interest Expense	75,492	112,700	(37,208)	-33.0%	129,335
Total Expenses	<u>8,789,700</u>	<u>9,135,223</u>	<u>(345,523)</u>	-3.8%	<u>8,447,051</u>
Income (loss) before capital contributions	(1,628,857)	(2,022,613)	393,756	-19.5%	(310,908)
Capital Contributions & SDCs	<u>426,606</u>	<u>379,320</u>	<u>47,286</u>	12.5%	<u>989,974</u>
Increase in to Net Assets	(1,202,251)	(1,643,293)	441,042	-26.8%	679,066
Total Net Assets - Beginning	<u>55,732,610</u>	<u>57,375,903</u>	<u>(1,643,293)</u>	-2.9%	<u>56,696,837</u>
Total Net Assets - Ending	<u>\$54,530,359</u>	<u>\$55,732,610</u>	<u>(\$1,202,251)</u>	-2.2%	<u>\$57,375,903</u>

Total revenues increased \$48,233 or .07 percent for fiscal year 2012. Total revenue was \$7,160,843, \$7,112,610, and \$8,136,143 for fiscal years ended June 30, 2012, 2011, and 2010, respectively. Increases were noted in operating revenues due to water sales. Water sales increased during 2012, as compared to 2011, due to a rate increase effective May 1, 2012. Decreases in nonoperating revenues were noted in interest earnings due to continued low interest rates, and Federal awards and other due to the corrosion control study in 2011. Increases occurred in other revenues due to insurance credit for longevity of management during 2012, compared to 2011.

Expenses incurred by the six departments (Water Resources, System Operations, Finance, Accounting and Customer Service, Administrative Services, Engineering and Board of Commissioners) totaled \$6,871,640, \$7,124,359, and \$6,610,472 for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

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

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2012 and 2011**

infrastructure (waterline and reservoirs). 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, 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 an decrease of \$45,773 (1.8 percent) in expenses when compared to fiscal year 2011. This decrease was primarily due to the corrosion control study moving into the reporting stage during 2012 after the start up during 2011.

The System Operations department experienced an increase of \$221,845 (19.2 percent) in expenses compared to fiscal year 2011. This increase was primarily due to less department activities capitalized on capital projects in 2012.

The Finance, Accounting and Customer Service (FACS) department has expenditures of \$945,548 during fiscal year 2012, an increase of \$5,620 (.06 percent) from 2011. increases are noted in audit, bad debt and maintenance agreements on computer software expenses, which were partial offset by decreases in customer credit allowance, printing and bank charges expenses. The coordinator position was moved to Administrative Services, which was offset by changes in benefits elections and all positions were filled for the fiscal year.

The Administrative Services department had a \$5,490 (0.3 percent) increase in its expenses when compared to fiscal year 2011. Personnel services increased for the coordinator position moved from FACS, which were partial offset by decreases in building and grounds maintenance, contract work, computers, peripherals and software, and vehicle maintenance expenses.

The Engineering department had a \$367,441 (46.3 percent) decrease in expenditures when compared to fiscal year 2011. The Engineering department decrease was due to contracted work with Water Environmental Services for ravine mitigation work on Holly Lane during 2011.

The Board department has expenditures of \$181,797 during fiscal year 2012, a \$131,451 (42.0 percent) decrease. This decrease is due to a decrease additional audit work performed and legal expenses when compared to fiscal year 2011.

The amount of labor, overhead and equipment capitalized decreased \$58,991 (28.5 percent) for fiscal year 2012. This decrease is primarily due to a decrease in personal services hours allocated to capital projects during the fiscal year.

Depreciation expense decreased \$20,973 (1.1 percent) for fiscal year 2012. Depreciation expense was \$1,824,342, \$1,845,315, and \$1,707,244 for fiscal years ended June 30, 2012, 2011, and 2010, respectively. Depreciation expense decreased due to the retirements of capital assets in 2011, and is appropriate for the assets placed in service. Interest expense was \$75,492, \$112,700 and \$129,335 for fiscal years ended June 30, 2012, 2011, and 2010, respectively. This decrease is the result of interest savings on debt refunding performed in 2010.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2012 and 2011**

Budgetary Highlights

A condensed version of the Fund Budgetary Comparison Schedule for the year ended June 30, 2012, follows:

Budget Comparison Schedule – General Fund

	<u>Final budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Receipts	\$ 7,442,600	\$ 7,137,290	\$ (305,310)
Disbursements			
Personal Services	3,810,243	3,731,925	78,318
Material & services	3,539,600	3,127,685	411,915
Capital outlay	<u>388,300</u>	<u>334,779</u>	<u>53,521</u>
Total disbursements	7,738,143	7,194,389	543,754
Other financing sources (uses)	<u>(77,647)</u>	<u>(131,526)</u>	<u>(53,879)</u>
Changes in Fund Balances	<u><u>(373,190)</u></u>	<u><u>(188,625)</u></u>	<u><u>(184,565)</u></u>

Actual revenue was \$305,310 under budget due to the decrease in business activity and a cooler than average weather pattern. Fund balances decreased by \$188,625, which was less than the budget by \$184,565.

Capital Assets

At June 30, 2012, the District had \$48,870,246 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 \$2,128,398 in additions or transfers during fiscal year 2012, of that amount \$1,781,532 of additions were for improvement to the water distribution system. The District had \$780,728 of construction-in-progress at June 30, 2012. In fiscal year 2012, the District expensed \$1,824,342 in depreciation. Additional information on capital assets can be found in 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 the Notes to the Basic Financial Statements.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2012 and 2011**

Economic Factors, Next Year's Budget and Rates

The Board of Commissioners adopted the District's 2012-13 budget on June 21, 2012. The adoption of the budget provides funding for the District's operation, capital and debt service costs for the 2012-13 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;
- Upgrades to the water treatment plants' existing electrical system;
- Design and installation of an emergency generator system at the water treatment plant;
- Hwy 212 and Lawnfield relocations in connection with County road resurfacing and upgrades;
- Design and construction of Carver Bridge transmission intertie and main;
- Adjustments to water mains and services necessitated by Oregon Department of Transportation for the Sunrise Job and Transportation Act (JTA)

The water rates are reviewed by staff and the Board of Commissioners on an annual basis. Water rates were approved March 29, 2012 to increase May 1, 2012 and May 1, 2013.

Request for Information

Our financial report is designed to provide our taxpayers, 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 Financial Services 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 ASSETS
as of June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 276,784	\$ 780,120
Cash held for customer deposits	71,332	54,517
Accounts receivable, net	1,627,908	1,339,263
Grants receivable	30,000	111,927
Supplies inventory	195,799	216,296
Current portion of notes receivable	19,557	18,421
Unamortized bond issuance cost	4,678	4,678
Prepaid expenses and other receivables	208,452	174,188
Current assets - unrestricted	<u>2,434,510</u>	<u>2,699,410</u>
Cash and cash equivalents - restricted	7,738,619	9,405,764
Current assets - restricted	<u>7,738,619</u>	<u>9,405,764</u>
Total current assets	<u>10,173,129</u>	<u>12,105,174</u>
Noncurrent Assets:		
Capital assets not being depreciated	3,222,230	3,360,124
Capital assets, net of accumulated depreciation	45,648,016	45,362,186
Unamortized bond issuance cost	34,343	39,021
Notes receivable	91,054	110,611
Total noncurrent assets	<u>48,995,643</u>	<u>48,871,942</u>
TOTAL ASSETS	<u>\$ 59,168,772</u>	<u>\$ 60,977,116</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 396,022	\$ 495,670
Accrued expenses	372,897	358,509
Deferred revenue and customer deposits	71,332	66,201
Accrued interest	21,268	23,818
Current portion of bonds payable	548,414	523,414
Total current liabilities	<u>1,409,933</u>	<u>1,467,612</u>
Noncurrent liabilities:		
Bonds payable	3,228,480	3,776,894
Total noncurrent liabilities	<u>3,228,480</u>	<u>3,776,894</u>
TOTAL LIABILITIES	<u>4,638,413</u>	<u>5,244,506</u>
NET ASSETS:		
Investment in capital assets, net of related debt	45,093,351	44,422,001
Net assets - restricted	7,717,351	9,381,946
Net assets - unrestricted	1,719,657	1,928,663
TOTAL NET ASSETS	<u>54,530,359</u>	<u>55,732,610</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 59,168,772</u>	<u>\$ 60,977,116</u>

See notes to basic financial statements

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CLACKAMAS RIVER WATER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Water sales	\$ 6,760,994	\$ 6,522,923
Water service connections fees	41,896	70,251
Water service extension fees	1,486	22,779
Service charges on past due accounts	62,100	160,525
Other	55,788	18,984
Total operating revenues	<u>6,922,264</u>	<u>6,795,462</u>
OPERATING EXPENSES:		
Water resources	2,441,134	2,486,907
System operations	1,378,394	1,156,549
Finance, accounting and customer service	945,548	939,928
Administrative services	1,647,006	1,641,516
Engineering	425,856	793,297
Board of commissioners	181,797	313,248
Less: Capitalized labor and overhead	(148,095)	(207,086)
Depreciation and amortization	1,824,342	1,845,315
Total operating expenses	<u>8,695,982</u>	<u>8,969,674</u>
OPERATING LOSS	<u>(1,773,718)</u>	<u>(2,174,212)</u>
NONOPERATING REVENUES (EXPENSES):		
Federal award and other	35,383	141,927
Interest expense, net	(75,492)	(112,700)
Interest earnings on cash equivalents	46,405	56,489
Rental income	96,417	92,284
Interest income from note receivable	7,241	8,311
Loss on disposal of capital assets	(18,226)	(52,849)
Other	53,133	18,137
Total nonoperating revenues	<u>144,861</u>	<u>151,599</u>
LOSS BEFORE CONTRIBUTIONS	<u>(1,628,857)</u>	<u>(2,022,613)</u>
SYSTEM DEVELOPMENT CHARGES	85,911	187,501
CAPITAL CONTRIBUTIONS	<u>340,695</u>	<u>191,819</u>
CHANGE IN NET ASSETS	<u>(1,202,251)</u>	<u>(1,643,293)</u>
NET ASSETS - BEGINNING OF YEAR	<u>55,732,610</u>	<u>57,375,903</u>
NET ASSETS - END OF YEAR	<u>\$ 54,530,359</u>	<u>\$ 55,732,610</u>

See notes to basic financial statements

**CLACKAMAS RIVER WATER
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 6,608,052	\$ 6,779,822
Cash payments to suppliers for goods and services	(3,456,055)	(3,688,021)
Cash payments to employees for services	(3,632,010)	(3,549,215)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(480,012)</u>	<u>(457,414)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on revenue bonds	(510,000)	(505,000)
Interest paid on revenue bonds, net of amount capitalized	(135,260)	(150,485)
Net proceeds on bond refunding	-	-
System development charges received	85,911	187,501
Grant revenue	111,927	92,690
Acquisition and construction of capital assets	(1,452,947)	(1,096,159)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,900,369)</u>	<u>(1,471,453)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Rents received	105,026	91,626
Collections on notes receivable	18,421	14,615
Interest received on notes receivable	7,241	8,908
Other	49,622	17,409
NET CASH FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>180,310</u>	<u>132,558</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	46,405	56,489
NET CASH FROM INVESTING ACTIVITIES	<u>46,405</u>	<u>56,489</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,153,666)	(1,739,820)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10,240,401</u>	<u>11,980,221</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 8,086,735</u></u>	<u><u>\$ 10,240,401</u></u>

See notes to basic financial statements

CLACKAMAS RIVER WATER
STATEMENTS OF CASH FLOWS (Continued)
for the years ended June 30, 2012 and 2011

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

	<u>2012</u>	<u>2011</u>
Operating loss	<u>\$ (1,773,718)</u>	<u>\$ (2,174,212)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,824,342	1,845,315
Capitalized labor and overhead	(148,095)	(207,086)
Changes in assets and liabilities:		
Increase in accounts receivable	(288,645)	34,404
Decrease in inventory of supplies	20,497	(16,191)
Increase in other prepaid expenses	(34,264)	(10,521)
Increase (decrease) in accounts payable	(99,648)	60,071
Increase (decrease) in accrued expenses	14,388	23,745
Increase (decrease) in deferred revenue	5,131	(12,939)
Total adjustments	<u>1,293,706</u>	<u>1,716,798</u>
NET CASH FROM OPERATING ACTIVITIES	<u>\$ (480,012)</u>	<u>\$ (457,414)</u>

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

Donated capital assets	<u>\$ 275,000</u>	<u>\$ 123,087</u>
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See notes to basic financial statements

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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 and 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 the years of 1926 and 1995.

The District holds a permit that allows approximately forty million gallons of water intake per day ("MGPD") 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.

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 Assets. The District's net assets are segregated into three amounts: investment in capital assets, net of related debt; restricted and unrestricted.

The District's basic financial statements are prepared on the accrual basis of accounting, which is in accordance with accounting principles generally accepted 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.

The District has applied Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board ("GASB") pronouncements. All FASB Statements and Interpretations issued after November 30, 1989, have not been applied as allowed by GASB Statement No. 20.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The District's accounts are maintained in accordance with the principles of fund accounting whereby resources are classified into funds. All of the District's funds are classified as enterprise funds. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts. The District has established eight funds based on their nature and purpose:

General Fund:

The General Fund accounts for all of the District's operating and unrestricted activities.

Capital Improvement Projects ("CIP") Fund:

The CIP Fund accounts for the resources used to construct and improve the District's capital assets. Constructed assets are transferred to the General Fund when they are ready to be placed in service.

Revenue Bond Fund:

The Revenue Bond Fund accounts for the District's Series 2009 Revenue Bonds and related debt service.

Capital Reserve Fund:

The Capital Reserve Fund accounts for the District's resources used for capital improvements. When budgeted, resources are transferred to another fund (usually the CIP Fund or the General Fund) and used for their specific purpose.

Rate Stabilization Reserve Fund:

The Rate Stabilization Reserve Fund accounts for the District's resources for the bond rate stabilization. When budgeted, resources are transferred to the General Fund to stabilize revenues.

SDC Reserve Fund:

The SDC Reserve Fund accounts for the District's resources for restricted system development. When budgeted, resources are transferred to another fund (usually the CIP Fund or Revenue Bond Fund) and used for their specific purpose.

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.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the date of the financial statements and the 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 (including deposits in money market accounts) and the 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.

Investments in the LGIP are stated at cost, which approximates fair value.

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

Accounts Receivable:

Accounts receivable represent user charges which are recognized as earned 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. 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, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Customer Deposits and Deferred 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. Maintenance and repairs of a routine nature 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.

Generally Accepted Accounting Principles ("GAAP") require 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 and totaled \$148,095 and \$207,086 for the years ended June 30, 2012 and 2011, respectively. Capitalized interest is allocated based on the weighted average net borrowing costs incurred and totaled \$43,804 and \$21,846 for the years ended June 30, 2012 and 2011, 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.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Bond premiums and issuance costs 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 bonds outstanding. Deferred charges on refundings are amortized over the life of the old or new bonds, whichever is shorter.

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 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 will receive cash for accrued sick leave up to 1,040 hours (unless “grandfathered” under a previous policy).

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 Assets:

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 assets of the District, and changes therein, are classified and reported as follows:

Invested in capital assets, net of related debt – 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 assets consists of assets restricted by third parties or bond resolutions.

Unrestricted – all other net assets 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 Assets.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 and 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.

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 is adopted for the General Fund 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 personal services category. There were no supplemental budgets during fiscal 2012.

A summary of the District's Fiscal Year 2011-2012 Adopted Annual Budget is included in the Supplementary Information section attached to these general purpose financial statements.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Cash deposited with financial institutions	\$ 174,634	\$ 74,583
Money market accounts	-	147,615
Cash on hand	<u>900</u>	<u>900</u>
	175,534	223,098
Local Government Investment Pool (LGIP)	<u>7,911,201</u>	<u>10,017,303</u>
Total cash and cash equivalents	<u>\$ 8,086,735</u>	<u>\$ 10,240,401</u>

Reported on the Statement of Net Assets as follows:

Current Assets:		
Cash and cash equivalents	\$ 276,784	\$ 780,120
Customer deposits	71,332	54,517
Noncurrent assets:		
Restricted and reserved cash and cash equivalents	<u>7,738,619</u>	<u>9,405,764</u>
Total cash and cash equivalents	<u>\$ 8,086,735</u>	<u>\$ 10,240,401</u>

Deposits Credit Risk

Deposit credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The combined total bank balance at June 30, 2012, is \$256,675. Of these deposits, \$250,000 was covered by federal depository insurance. As required by Oregon Revised Statutes, deposits in excess of federal depository insurance 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.

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 LGIP. A copy of the LGIP financial statements is available from the Oregon State Treasurer.

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.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

3. CASH AND CASH EQUIVALENTS, Continued

The District participates in the State of Oregon LGIP. The LGIP is not registered with the U.S. Securities and Exchange Commission as an investment company and the pool is unrated and does not have a credit quality rating. Oregon Revised Statutes and the Oregon Investment Council govern the investment policies of the pool. The State Treasurer is the investment officer for the Council and is responsible for all the funds of the State Treasury. Additionally, investments in the pool are further governed by guidelines issued by the Oregon Short-Term Fund Board. A copy of the LGIP financial statements is available from the Oregon State Treasurer.

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

	2012	2011
Water sales receivables	\$ 1,109,712	\$ 892,055
Unbilled water sales	492,000	437,000
Less allowance for uncollectible accounts	(10,000)	(10,000)
Total water sales receivable	1,591,712	1,319,055
Other	36,196	20,208
Total accounts receivable, net	\$ 1,627,908	\$ 1,339,263

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 \$15,364 and \$19,494 at June 30, 2012 and 2011, 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, 2012 AND 2011

5. NOTE RECEIVABLE

The District's note receivable consists of the following at June 30:

	2012	2011
Note receivable from Beaver Creek Cooperative Telephone in monthly installments of \$2,138, including interest at 6%; matures in June 2017; collateralized by real property	\$ 110,611	\$ 129,032
Less amount due within one year	(19,557)	(18,421)
Amount due after one year	\$ 91,054	\$ 110,611

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

Year	Amount
2013	19,557
2014	20,763
2015	22,044
2016	23,403
2017	24,844
	\$ 110,611

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

6. CAPITAL ASSETS

The District's capital assets activity for the year ended June 30, 2012 is as follows:

	<u>Balances June 30, 2011</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Balances June 30, 2012</u>
Depreciable Assets:				
Buildings	\$ 6,936,965	\$ -	\$ -	\$ 6,936,965
Improvements	7,588,486	298,698	(5,791)	7,881,393
Machinery, furniture and equipment	3,510,964	48,168	(20,251)	3,538,881
Pump stations	3,914,701	-	-	3,914,701
Reservoirs	6,589,983	-	-	6,589,983
Water distribution system	49,912,413	1,781,532	-	51,693,945
	<u>78,453,512</u>	<u>2,128,398</u>	<u>(26,042)</u>	<u>80,555,868</u>
Accumulated depreciation:				
Buildings	(4,356,721)	(247,370)	-	(4,604,091)
Improvements	(2,368,211)	(241,990)	5,791	(2,604,410)
Machinery, furniture and equipment	(2,419,010)	(110,946)	2,025	(2,527,931)
Pump stations	(2,465,650)	(130,342)	-	(2,595,992)
Reservoirs	(2,237,478)	(142,058)	-	(2,379,536)
Water distribution system	(19,244,256)	(951,636)	-	(20,195,892)
	<u>(33,091,326)</u>	<u>(1,824,342)</u>	<u>7,816</u>	<u>(34,907,852)</u>
Total depreciable assets, net	<u>45,362,186</u>	<u>304,056</u>	<u>(18,226)</u>	<u>45,648,016</u>
Nondepreciable assets:				
Land and easements	2,441,502	-	-	2,441,502
Construction in Progress	918,622	1,290,299	(1,428,193)	780,728
Total nondepreciable assets	<u>3,360,124</u>	<u>1,290,299</u>	<u>(1,428,193)</u>	<u>3,222,230</u>
Total capital asset activity	<u>\$ 48,722,310</u>	<u>\$ 1,594,355</u>	<u>\$ (1,446,419)</u>	<u>\$ 48,870,246</u>

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

6. CAPITAL ASSETS, Continued

The District's capital assets activity for the year ended June 30, 2011 is as follows:

	Balances June 30, 2010	Additions and Transfers	Retirements and Transfers	Balances June 30, 2011
Depreciable Assets:				
Buildings	\$6,853,241	\$83,724	\$ -	\$6,936,965
Improvements	7,692,220	25,496	(129,230)	7,588,486
Machinery, furniture and equipment	3,472,217	54,138	(15,391)	3,510,964
Pump stations	3,910,476	4,225	-	3,914,701
Reservoirs	6,555,281	34,702	-	6,589,983
Water distribution system	49,174,419	737,994	-	49,912,413
	<u>77,657,854</u>	<u>940,279</u>	<u>(144,621)</u>	<u>78,453,512</u>
Accumulated depreciation:				
Buildings	(4,106,440)	(250,281)	-	(4,356,721)
Improvements	(2,188,076)	(256,514)	76,379	(2,368,211)
Machinery, furniture and equipment	(2,315,754)	(118,647)	15,391	(2,419,010)
Pump stations	(2,333,902)	(131,748)	-	(2,465,650)
Reservoirs	(2,093,895)	(143,583)	-	(2,237,478)
Water distribution system	(18,299,714)	(944,542)	-	(19,244,256)
	<u>(31,337,781)</u>	<u>(1,845,315)</u>	<u>91,770</u>	<u>(33,091,326)</u>
Total depreciable assets, net	<u>46,320,073</u>	<u>(905,036)</u>	<u>(52,851)</u>	<u>45,362,186</u>
Nondepreciable assets:				
Land and easements	2,441,502	-	-	2,441,502
Construction in Progress	337,194	1,141,630	(560,202)	918,622
Total nondepreciable assets	<u>2,778,696</u>	<u>1,141,630</u>	<u>(560,202)</u>	<u>3,360,124</u>
Total capital asset activity	<u>\$49,098,769</u>	<u>\$236,594</u>	<u>(\$613,053)</u>	<u>\$48,722,310</u>

Depreciation expense charged to operations totaled \$1,824,342 and \$1,845,315 for the years ended June 30, 2012 and 2011, respectively.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

7. BONDS PAYABLE

The District has issued revenue bonds pursuant to Oregon Revised Statutes (“ORS”) Sections 287A.360 and 264.270 to refund prior bond issuances with higher interest rates. The District’s revenue bonds consist of Series 2009 Revenue Bonds; interest payable semi-annually on May 1 and November 1 from 3.00% to 4.00%; secured by the District’s net operating revenues, net assets reserved for rate stabilization and a Reserve Credit Facility (see below).

The District’s revenue bond activity for the year ended June 30, 2012 is as follows:

	Balances June 30, 2011	Additions	Payments & Decreases	Balances June 30, 2012	Amount due within one year	Long-term portion
Revenue Bonds - 2009	\$ 4,175,000	\$ -	\$ (510,000)	\$ 3,665,000	\$ 535,000	\$ 3,130,000
Deferred on refunding	(26,911)	-	2,881	(24,030)	(2,881)	(21,149)
Unamortized premium	152,219	-	(16,295)	135,924	16,295	119,629
	<u>\$ 4,300,308</u>	<u>\$ -</u>	<u>\$ (523,414)</u>	<u>\$ 3,776,894</u>	<u>\$ 548,414</u>	<u>\$ 3,228,480</u>

The District’s revenue bond activity for the year ended June 30, 2011 is as follows:

	Balances June 30, 2010	Additions	Payments & Decreases	Balances June 30, 2011	Amount due within one year	Long-term portion
Revenue Bonds - 2009	\$ 4,680,000	\$ -	\$ (505,000)	\$ 4,175,000	\$ 510,000	\$ 3,665,000
Deferred on refunding	(29,792)	-	2,881	(26,911)	(2,881)	(24,030)
Unamortized premium	168,514	-	(16,295)	152,219	16,295	135,924
	<u>\$ 4,818,722</u>	<u>\$ -</u>	<u>\$ (518,414)</u>	<u>\$ 4,300,308</u>	<u>\$ 523,414</u>	<u>\$ 3,776,894</u>

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

7. BONDS PAYABLE, Continued

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

	Fiscal Year	Principal	Interest
	2013	535,000	119,585
	2014	340,000	106,460
	2015	360,000	95,555
	2016	365,000	84,275
	2017	380,000	73,100
	2018-2021	1,685,000	138,700
		3,665,000	617,675
Deferred amount on refunding		(24,030)	-
Unamortized bond premium		135,924	-
		\$ 3,776,894	\$ 617,675

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. The bonds are not funded by tax charges and are not general obligations of the District. For the fiscal years ended June 30, 2012 and 2011, the District was in compliance with the covenants associated with these bonds.

Current Refunding:

On November 17, 2009, the District issued \$4,680,000 of water revenue bonds for a current refunding of \$4,775,000 of the Series 1999 water revenue bonds. The refunding was undertaken to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$31,592. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. The transaction also resulted in an economic gain of \$605,903 and a reduction of \$709,121 in future debt service payments.

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.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

8. ACCRUED EXPENSES

Accrued expenses consist of the following at June 30:

	2012	2011
Compensated Absences	\$ 205,874	\$ 227,386
Payroll	52,939	62,394
PERS (note 11)	106,256	60,496
Payroll Taxes and other	7,828	8,233
	\$ 372,897	\$ 358,509

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

Rental income is recognized as non-operating revenue and totaled \$96,417 and \$92,284 for the years ended June 30, 2012 and 2011, respectively.

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

Fiscal Year	Amount
2013	93,130
2014	95,297
2015	97,203
2016	99,147
2017	101,130
2018-2022	536,808
2023	113,888
	\$ 1,136,603

CLACKAMAS RIVER WATER
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2012 AND 2011

10. OPERATING LEASES

In December 2008 the District began leasing two mailing stations under agreements which expire in February 2014. Rent expense charged to operations under these agreements totaled \$3,366 and \$2,738 for the year ended June 30, 2012 and 2011, respectively.

The District also leases five copiers under three lease agreements expiring in August 2012, as well as two month-to-month agreements. Rent expense charged to operations under these agreements totaled \$20,052 and \$19,601 for each of the years ended June 30, 2012 and 2011.

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:

<u>Fiscal Year</u>	<u>Amount</u>
2013	9,356
2014	6,962
2015	3,409
	<u>\$ 19,727</u>

The District leases various other office equipment under month-to-month agreements. Rent expense charged to operations under all operating leases totaled \$26,183 and \$26,832 for the years ended June 30, 2012 and 2011, 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 “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.

The defined contribution portion of OPSRP is provided to all members who are PERS or OPSRP eligible. State statute requires that covered employees contribute 6.00% of their annual covered salary to the IAP plan effective January 1, 2004.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

11. PENSION PLANS, Continued

Those employees who had established a PERS membership prior to the creation of OPSRP will retain their existing PERS accounts, but member contributions made after the beginning of 2004 will be deposited into the members IAP account.

Substantially all District employees are eligible to participate in the system after completing six months of service. PERS is a closed system; all new employees establish membership in the OPSRP system. For both systems, benefits generally vest after five years of continuous service. Retirement is allowed at age sixty with unreduced benefits but retirement is generally available after age fifty-five with reduced benefits.

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/>.

Funding Policy:

The rate of employer contributions to PERS is determined periodically by PERS based on actuarial valuations performed at least every two years. Contributions to PERS have historically been made based on the annual required contribution and were charged to expense as funded. The District's annual contribution rate for fiscal 2012 and 2011 was 16.39% and 12.64% for PERS and 13.92% and 12.36% for OPSRP, respectively.

Employees of the District are classified by PERS as general service employees. Pursuant to the collective bargaining agreement, the employees contribute the required employee contribution of 6.00% of covered salaries. 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.

Annual Pension Cost:

For the year ended June 30, 2012 and 2011, the District's required and actual contribution was \$406,361 and \$325,020, 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, 2012 and 2011 were determined as part of a December 31, 2007 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 which 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.

CLACKAMAS RIVER WATER
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2012 AND 2011

11. PENSION PLANS, Continued

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 below

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2012	\$ 406,361	100%	\$ -
2011	325,020	100%	-
2010	319,217	100%	-

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 and no such contributions have been made. 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 claims totaling \$9,640 and \$7,794 for the years ended June 30, 2012 and 2011, respectively.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

13. COMMITMENTS AND CONTINGENCIES, Continued

Construction Commitments:

Construction in progress totaled \$780,728 at June 30, 2012. At June 30, 2012, the District has no construction commitments.

Beavercreek Telephone Cooperative (BCT):

The District is currently a part of ongoing negotiations with BCT related to a land lease contingency. The outcome is unknown at the time of issuance of these financial statements and an estimate cannot be reasonably determined.

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.

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, 2012
(with comparative totals for the year ended June 30, 2011)

	2012				2011 Actual
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	
Revenues:					
Water sales	\$ 6,900,000	\$ 6,900,000	\$ 6,760,994	\$ (139,006)	\$ 6,522,923
Service connections	60,000	60,000	41,896	(18,104)	70,251
Service charges	60,000	60,000	62,100	2,100	160,525
Miscellaneous - operating	50,000	50,000	57,273	7,273	41,763
Rental income	123,500	123,500	116,079	(7,421)	113,445
Miscellaneous - nonoperating	238,600	238,600	94,517	(144,083)	164,348
Surplus property sale	5,000	5,000	-	(5,000)	215
Interest income	5,500	5,500	4,431	(1,069)	5,861
Total revenues	<u>7,442,600</u>	<u>7,442,600</u>	<u>7,137,290</u>	<u>(305,310)</u>	<u>7,079,331</u>
Other financing source:					
Transfer from					
Rate Stabilization Reserve Fund	697,879	697,879	644,000	(53,879)	-
Total revenues and other financing source	<u>8,140,479</u>	<u>8,140,479</u>	<u>7,781,290</u>	<u>(359,189)</u>	<u>7,079,331</u>
Beginning fund balance available for appropriation	2,300,000	2,300,000	1,713,429	(586,571)	2,724,898
	<u>\$ 10,440,479</u>	<u>\$ 10,440,479</u>	<u>\$ 9,494,719</u>	<u>\$ (945,760)</u>	<u>\$ 9,804,229</u>

CLACKAMAS RIVER WATER

GENERAL FUND

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

for the year ended June 30, 2012

(with comparative totals for the year ended June 30, 2011)

	2012				
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	2011 Actual
Expenditures:					
Water Resources:					
Personal services	\$ 921,635	\$ 1,001,635	\$ 980,284	\$ 21,351	\$ 908,505
Materials and services	1,758,500	1,758,500	1,477,054	281,446	1,578,376
Capital outlay	296,300	296,300	260,377	35,923	100,657
	2,976,435	3,056,435	2,717,715	338,720	2,587,538
System Operations:					
Personal services	990,197	1,010,197	1,002,320	7,877	938,379
Materials and services	375,600	375,600	396,349	(20,749)	246,304
Capital outlay	50,000	50,000	22,002	27,998	27,357
	1,415,797	1,435,797	1,420,671	15,126	1,212,040
Finance, Accounting, & Customer Service					
Personal services	636,300	636,300	649,875	(13,575)	662,122
Materials and services	341,700	341,700	295,673	46,027	277,806
Capital outlay	-	-	-	-	1,350
	978,000	978,000	945,548	32,452	941,278
Administrative Services:					
Personal services	587,973	587,973	617,636	(29,663)	500,460
Materials and services	1,057,200	957,200	832,764	124,436	907,446
Capital outlay	42,000	42,000	52,400	(10,400)	55,601
	1,687,173	1,587,173	1,502,800	84,373	1,463,507
Board of Commissioners					
Personal services	108,218	108,218	99,423	8,795	96,188
Materials and services	73,800	73,800	82,375	(8,575)	217,060
	182,018	182,018	181,798	220	313,248
Engineering					
Personal services	465,921	465,921	382,387	83,534	479,203
Materials and services	32,800	32,800	43,470	(10,670)	314,094
	498,721	498,721	425,857	72,864	793,297
Contingency	500,000	500,000	-	500,000	-
Total expenditures	8,238,143	8,238,143	7,194,389	1,043,754	7,310,908
Other financing uses:					
Transfers to other funds:					
Capital Reserve Fund	500,000	500,000	500,000	-	500,000
Revenue Bond Fund	275,526	275,526	275,526	-	279,892
Total other financing uses	775,526	775,526	775,526	-	779,892
Total expenditures and other financing uses	9,013,669	9,013,669	7,969,915	1,043,754	8,090,800
Unappropriated ending fund balance	1,426,810	1,426,810	1,524,804	(97,994)	1,713,429
	\$ 10,440,479	\$ 10,440,479	\$ 9,494,719	\$ 945,760	\$ 9,804,229

**CLACKAMAS RIVER WATER
CAPITAL IMPROVEMENT PROJECTS FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)**

	2012				2011 Actual
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	
Revenues:					
Interest income	\$ -	\$ -	\$ 1,096	\$ 1,096	\$ 1,429
Other financing sources					
Transfers from other funds:					
SDC Reserve Fund	2,450,000	2,450,000	1,006,025	(1,443,975)	1,080,000
Capital Reserve Fund	508,000	508,000	274,175	(233,825)	-
Total other financing sources	<u>2,958,000</u>	<u>2,958,000</u>	<u>1,280,200</u>	<u>(1,677,800)</u>	<u>1,080,000</u>
Total revenues and other financing sources	<u>2,958,000</u>	<u>2,958,000</u>	<u>1,281,296</u>	<u>(1,676,704)</u>	<u>1,081,429</u>
Beginning fund balance available for appropriations	1,000	1,000	47,034	46,034	82,417
	<u>\$ 2,959,000</u>	<u>\$ 2,959,000</u>	<u>\$ 1,328,330</u>	<u>\$ (1,630,670)</u>	<u>\$ 1,163,846</u>

	2012				2011 Actual
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	
Expenditures:					
Personal services	\$ -	\$ -	\$ -	\$ -	\$ 251,212
Materials and services	-	-	-	-	865,600
Capital Outlay	2,959,000	2,959,000	1,279,760	1,679,240	-
Total expenditures	<u>2,959,000</u>	<u>2,959,000</u>	<u>1,279,760</u>	<u>1,679,240</u>	<u>1,116,812</u>
Unappropriated ending fund balance	-	-	48,570	(48,570)	47,034
	<u>\$ 2,959,000</u>	<u>\$ 2,959,000</u>	<u>\$ 1,328,330</u>	<u>\$ 1,630,670</u>	<u>\$ 1,163,846</u>

**CLACKAMAS RIVER WATER
REVENUE BOND FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)**

	2012				2011 Actual
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	
Revenue:					
Interest income	\$ 2,300	\$ 2,300	\$ 2,569	\$ 269	\$ 2,454
Other financing sources:					
Transfers from other funds:					
General Fund	275,526	275,526	275,526	-	279,892
SDC Reserve Fund	369,734	369,734	369,734	-	375,593
Total other financing sources	<u>645,260</u>	<u>645,260</u>	<u>645,260</u>	<u>-</u>	<u>655,485</u>
Total revenue and other financing sources	<u>647,560</u>	<u>647,560</u>	<u>647,829</u>	<u>269</u>	<u>657,939</u>
Beginning fund balance available for appropriations	471,300	471,300	545,380	74,080	516,583
	<u>\$ 1,118,860</u>	<u>\$ 1,118,860</u>	<u>\$ 1,193,209</u>	<u>\$ 74,349</u>	<u>\$ 1,174,522</u>

	2012				2011 Actual
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	
Expenditures:					
Principal on bonds	\$ 510,000	\$ 510,000	\$ 510,000	\$ -	\$ 505,000
Interest on bonds	135,260	135,260	135,260	-	124,142
Total expenditures	<u>645,260</u>	<u>645,260</u>	<u>645,260</u>	<u>-</u>	<u>629,142</u>
Unappropriated ending fund balance	473,600	473,600	547,949	(74,349)	545,380
	<u>\$ 1,118,860</u>	<u>\$ 1,118,860</u>	<u>\$ 1,193,209</u>	<u>\$ (74,349)</u>	<u>\$ 1,174,522</u>

**CLACKAMAS RIVER WATER
CAPITAL RESERVE FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)**

	2012				2011 Actual
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	
Revenue:					
Interest income	\$ 17,300	\$ 17,300	\$ 12,557	\$ (4,743)	\$ 11,692
Other financing source:					
Transfer from General Fund	500,000	500,000	500,000	-	500,000
Total revenue and other financing source	<u>517,300</u>	<u>517,300</u>	<u>512,557</u>	<u>(4,743)</u>	<u>511,692</u>
Beginning fund balance available for appropriations	3,118,700	3,118,700	2,510,241	(608,459)	1,998,549
	<u>\$ 3,636,000</u>	<u>\$ 3,636,000</u>	<u>\$ 3,022,798</u>	<u>\$ (613,202)</u>	<u>\$ 2,510,241</u>

	2012				2011 Actual
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	
Other financing uses:					
Transfer to CIP Fund	\$ 508,000	\$ 508,000	\$ 274,175	\$ 233,825	\$ -
Total other financing uses	<u>508,000</u>	<u>508,000</u>	<u>274,175</u>	<u>233,825</u>	<u>-</u>
Unappropriated ending fund balance	3,128,000	3,128,000	2,748,623	379,377	2,510,241
	<u>\$ 3,636,000</u>	<u>\$ 3,636,000</u>	<u>\$ 3,022,798</u>	<u>\$ 613,202</u>	<u>\$ 2,510,241</u>

**CLACKAMAS RIVER WATER
RATE STABILIZATION RESERVE FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)**

	2012				2011 Actual
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	
Revenue:					
Interest income	\$ 8,900	\$ 8,900	\$ 8,474	\$ (426)	\$ 11,725
Beginning fund balance available for appropriations	2,259,210	2,259,210	2,256,651	(2,559)	2,244,926
	<u>\$ 2,268,110</u>	<u>\$ 2,268,110</u>	<u>\$ 2,265,125</u>	<u>\$ (2,985)</u>	<u>\$ 2,256,651</u>

	2012				2011 Actual
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	
Other financing use:					
Transfer to General Fund	\$ 697,879	\$ 697,879	\$ 644,000	\$ 53,879	\$ -
Total other financing use	<u>697,879</u>	<u>697,879</u>	<u>644,000</u>	<u>53,879</u>	<u>-</u>
Unappropriated ending fund balance	1,570,231	1,570,231	1,621,125	(50,894)	2,256,651
	<u>\$ 2,268,110</u>	<u>\$ 2,268,110</u>	<u>\$ 2,265,125</u>	<u>\$ 2,985</u>	<u>\$ 2,256,651</u>

**CLACKAMAS RIVER WATER
SDC RESERVE FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)**

	2012				2011 Actual
	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)	
Revenues:					
Interest income	\$ 18,100	\$ 18,100	\$ 17,278	\$ (822)	\$ 23,328
System development charges	199,100	199,100	85,911	(113,189)	187,501
Total revenues	<u>217,200</u>	<u>217,200</u>	<u>103,189</u>	<u>(114,011)</u>	<u>210,829</u>
Beginning fund balance available for appropriations	5,059,407	5,059,407	4,166,576	(892,831)	5,411,340
	<u>\$ 5,276,607</u>	<u>\$ 5,276,607</u>	<u>\$ 4,269,765</u>	<u>\$ (1,006,842)</u>	<u>\$ 5,622,169</u>

	2012				2011 Actual
	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under	
Other financing uses:					
Transfers to other funds:					
Capital Improvement Projects Fund	\$ 2,450,000	\$ 2,450,000	\$ 1,006,025	\$ 1,443,975	\$ 1,080,000
Revenue Bond Fund	369,734	369,734	369,734	-	375,593
Total other financing uses	<u>2,819,734</u>	<u>2,819,734</u>	<u>1,375,759</u>	<u>1,443,975</u>	<u>1,455,593</u>
Unappropriated ending fund balance	2,456,873	2,456,873	2,894,006	(437,133)	4,166,576
	<u>\$ 5,276,607</u>	<u>\$ 5,276,607</u>	<u>\$ 4,269,765</u>	<u>\$ 1,006,842</u>	<u>\$ 5,622,169</u>

**CLACKAMAS RIVER WATER
RECONCILIATION OF REVENUES AND EXPENDITURES
TO CHANGES IN NET ASSETS
for the years ended June 30, 2012 and 2011**

	2012 Combined	2011 Combined
Revenues	\$ 7,265,175	\$ 7,317,460
Expenditures	9,119,409	9,056,862
	<u>(1,854,234)</u>	<u>(1,739,402)</u>
Add (deduct) items to reconcile to change in net assets		
on a GAAP basis:		
Expenditures capitalized	1,978,560	1,446,157
Payment of bond principal	510,000	505,000
Amortization of premiums, discounts and related deferrals	8,736	8,736
Decrease in accrued interest payable on long-term debt	(2,550)	(2,525)
Decrease in other receivables	(18,421)	(15,944)
Depreciation	<u>(1,824,342)</u>	<u>(1,845,315)</u>
Change in net assets	<u><u>\$ (1,202,251)</u></u>	<u><u>\$ (1,643,293)</u></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	42
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.	53
Economic and Demographic Information These schedules offer economic and demographic indicators that may assist the reader in understanding the environment within 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.	57

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

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

Fiscal Year Ended June 30,	Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted	Total Net Assets
2012	\$ 45,093,351	\$ 7,714,801	\$ 1,719,656	\$ 54,527,808
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 <i>(Restated)</i>	42,072,018	10,363,827	3,416,599	55,852,444
2007 <i>(Restated)</i>	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
2004	40,149,379	10,541,487	1,947,733	52,638,599
2003	36,488,738	10,770,100	3,908,541	51,167,379

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

CLACKAMAS RIVER WATER
CHANGE IN NET ASSETS
Last Ten Fiscal Years

	2012	2011	2010	2009	2008
Operating Revenues:					Restated
Water Sales	\$ 6,760,994	\$ 6,522,923	\$ 6,885,983	\$ 7,119,235	\$ 6,718,938
Other	161,270	272,539	278,816	344,102	172,709
Total operating revenues	6,922,264	6,795,462	7,164,799	7,463,337	6,891,647
Operating Expenses:					
Water Resources	2,441,134	2,486,907	2,186,667	2,188,474	2,126,837
System Operations	1,378,394	1,156,549	1,295,568	1,460,683	1,344,771
Finance, Accounting and Customer Service	945,548	939,928	923,743	-	-
Administrative Services	1,647,006	1,641,516	1,808,687	2,407,023	2,455,521
Engineering	425,856	793,297	404,518	367,106	336,193
Board of Commissioners	181,797	313,248	138,314	-	-
Overhead and equipment charges allocated and capitalized	(148,095)	(207,086)	(147,025)	(201,908)	(243,474)
Depreciation	1,824,342	1,845,315	1,707,244	1,727,249	1,634,644
Total operating expenses	8,695,982	8,969,674	8,317,716	7,948,627	7,654,492
Operating income:	(1,773,718)	(2,174,212)	(1,152,917)	(485,290)	(762,845)
Nonoperating revenues (expense)					
Federal award and other	35,383	141,927	624,809	925,798	-
Investment earning on cash equivalents	46,405	56,489	78,123	257,588	565,552
Interest income from note receivable	7,241	8,311	9,319	10,279	15,393
Rental income	96,417	92,284	84,775	68,647	69,783
Other	53,135	18,137	174,318	75,582	(7,239)
Gain (loss) from disposal of capital assets	(18,226)	(52,849)	-	(523)	-
Interest exepense (net)	(78,042)	(112,700)	(129,335)	(271,626)	(292,281)
Nonoperating income (expense) - net	142,313	151,599	842,009	1,065,745	351,208
Net Income before Capital Contributions	(1,631,405)	(2,022,613)	(310,908)	580,455	(411,637)
CAPITAL CONTRIBUTIONS	426,606	379,320	989,974	263,938	776,170
Change in Net Assets, prior period adjustments					(623,485)
CHANGE IN NET ASSETS	\$ (1,204,799)	\$ (1,643,293)	\$ 679,066	\$ 844,393	\$ (258,952)

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

CLACKAMAS RIVER WATER
CHANGE IN NET ASSETS
Last Ten Fiscal Years

	2007	2006	2005	2004	2003
Operating Revenues:	Restated				
Water Sales	\$ 7,021,874	\$ 6,686,744	\$ 6,568,473	\$ 7,165,912	\$ 6,925,649
Other	48,668	156,899	168,863	435,806	364,755
Total operating revenues	7,070,542	6,843,643	6,737,336	7,601,718	7,290,404
Operating Expenses:					
Water Resources	2,255,314	2,302,767	2,019,876	2,553,784	2,715,976
System Operations	2,044,612	1,505,837	1,717,183	1,697,819	1,698,364
Finance, Accounting and Customer Service	-	-	-	-	-
Administrative Services	2,194,696	1,659,435	1,587,035	1,509,647	1,614,748
Engineering	-	-	-	-	-
Board of Commissioners	-	-	-	-	-
Overhead and equipment charges allocated and capitalized	(327,584)	(189,456)	(323,202)	(576,750)	(286,188)
Depreciation	1,681,648	1,842,586	1,949,199	1,788,939	1,919,607
Total operating expenses	7,848,686	7,121,169	6,950,091	6,973,439	7,662,507
Operating income:	(778,144)	(277,526)	(212,755)	628,279	(372,103)
Nonoperating revenues (expense)					
Federal award and other	197,209	-	-	-	-
Investment earning on cash equivalents	602,640	430,938	212,859	170,373	236,044
Interest income from note receivable	-	-	-	-	-
Rental income	81,461	71,731	76,438	132,606	132,632
Other	-	-	34	7	16
Gain (loss) from disposal of capital assets	538,119	(11,788)	(405,264)	(693)	(67,739)
Interest expense (net)	(251,785)	(256,322)	(322,733)	(318,988)	(363,698)
Nonoperating income (expense) - net	1,167,644	234,559	(438,666)	(16,695)	(62,745)
Net Income before Capital Contributions	389,500	(42,967)	(651,421)	611,584	(434,848)
CAPITAL CONTRIBUTIONS	1,290,622	767,010	789,989	859,636	1,214,650
Change in Net Assets, prior period adjustments	930,064				
CHANGE IN NET ASSETS	\$ 2,610,186	\$ 724,043	\$ 138,568	\$ 1,471,220	\$ 779,802

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
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
2004	393,049	44,250	19,887	402,449	859,635
2003	496,586	47,353	26,353	644,357	1,214,649

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
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
2004	4,702,264	4,832,950	97.3	742,426	789,293	-	94.1	5,444,690	5,622,243	96.8
2003	4,383,955	4,619,342	94.9	677,896	829,542	-	81.7	5,061,851	5,448,884	92.9

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		Direct		Total (1)	
	Ended	Wholesale	Percent	Industrial /	Percent	Residential		Percent
June 30,			Commercial	of Total		of Total		
2012	\$	533,237	8.1	\$ 2,924,468	44.4	\$ 3,121,704	47.4	\$ 6,579,408
2011		551,809	8.3	2,562,616	38.7	3,510,797	53.0	6,625,222
2010		540,930	7.7	2,678,344	38.0	3,821,868	54.3	7,041,142
2009		535,773	7.3	2,795,916	38.3	3,967,119	54.4	7,298,808
2008		488,754	7.4	2,638,507	39.9	3,487,743	52.7	6,615,004
2007		580,635	8.2	2,825,144	39.9	3,669,023	51.9	7,074,802
2006		592,315	9.1	2,733,803	42.1	3,172,456	48.8	6,498,574
2005		800,895	12.1	2,697,883	40.7	3,123,912	47.2	6,622,690
2004		874,022	12.2	2,907,798	40.7	3,370,729	47.1	7,152,549
2003		862,026	12.8	2,506,521	37.2	3,374,372	50.0	6,742,919

(1) Total water sold does not include water sold on fire hydrant permits. Total Water Revenue on page 8 includes water sales on fire hydrant permits.

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 Ended June 30,	Wholesale	Percent of Total	Direct		Direct Residential	Percent of Total	Total
			Industrial / Commercial	Percent of Total			
2012	1,156,065	32.2	1,329,344	37.0	1,107,144	30.8	3,592,553
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	1,517,097	32.8	1,699,250	36.7	1,414,579	30.5	4,630,926
2006	1,666,001	35.9	1,715,028	37.0	1,258,843	27.1	4,639,872
2005	2,160,491	42.2	1,709,794	33.4	1,246,479	24.4	5,116,764
2004	2,204,702	40.6	1,850,657	34.1	1,369,331	25.2	5,424,690
2003	2,081,823	41.1	1,617,664	32.0	1,362,364	26.9	5,061,851

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)	
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
2004	134	8	5	147
2003	98	17	10	125

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
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
2004	11,481	239	574	58	315	158	12,825
2003	11,324	221	512	52	305	144	12,558
2002	11,342	219	407	50	291	139	12,448

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)
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
2004	5.85	1.15
2003	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
2004	5.85	2.35
2003	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, 2012 and 2003**

Consumer	2012		2003	
	Consumption (Hundred Cubic Feet)	Percent of District Total	Consumption (Hundred Cubic Feet)	Percent of District Total
Wholesale:				
Sunrise Water Authority	1,239,597	34.50%		
North Clackamas County Water Commission	-	-	1,291,408	25.5%
City of Gladstone	-	-	545,927	10.8
Oak Lodge Water District	-	-	244,488	4.8
Commercial:				
Precision Castparts Corporation	129,692	3.6	159,818	3.2
Safeway	67,102	1.9	38,719	0.8
Clackamas Town Center	30,584	0.9	33,418	0.7
Fred Meyer, Inc.	24,999	0.7	45,131	0.9
Interstate Meats	15,898	0.4	-	-
Unified Western Grocers	14,744	0.4	-	-
Larsen Creamery Inc	12,236	0.3	-	-
Kaiser FDN Hospital	-	-	92,505	1.8
Multi-family:				
Country Village Mobile Home Park	42,813	1.2	57,655	1.1
Lake Crest Appartment (GSL Properties)	25,161	0.7	-	-
Overlook at Causey	23,803	0.7	-	-
Johnson City	23,368	0.7	28,979	0.6
Clackamas Trails	23,128	0.6	-	-
Easton Ridge Appartments	21,062	0.6	-	-
Reflections at Happy Valley	18,205	0.5	-	-
Giadan K Estates	14,773	0.4	-	-
Oak Acres Mobile Home Park	12,643	0.4	27,275	0.5
Watermark Square Appartments	-	-	44,767	0.9
Crown Court Appartments	-	-	29,512	0.6
All Other Consumers	1,852,745	51.6	2,422,249	47.9
	3,592,553	100.0%	5,061,851	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
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)			(3) Coverage
				Principal	Interest	Total	
2012 (4)	\$ 8,160,845	\$ 6,871,640	\$ 1,289,205	\$515,000	\$135,260	\$650,260	1.98
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
2003	8,146,901	6,175,571	1,971,330	305,000	389,051	694,051	2.84

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)
2012	N/A	N/A	N/A	8.1
2011	380,207	N/A	N/A	9.9
2010	375,992	11,950,906	31,785	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	15,371,418	41,378	5.0
2005	356,250	14,327,255	39,116	5.9
2004	353,450	13,599,941	37,631	7.0
2003	350,850	12,813,995	35,973	8.3

(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 CLACKAMAS COUNTY
FOR THE YEARS ENDED JUNE 30, 2012 and 2003**

Name	Product or Service	2012 Estimated Employment	2003 Estimated Employment
Kaiser Permanente	Medical Center	N/A	2,800
Precision Castparts Corp.	Investments Castings	2,600	2,075
Blount, Inc	Outdoor products	1,400	N/A
Fred Meyer, Inc.	Distribution Center	1,300	1,100
Safeway Stores, Inc.	Distribution Center and Bakery	1,290	650
York International	Heating/Air Conditioning Equipment	N/A	700
Warn Industries - Portland	4-Wheel Drive After Market Equipment	500	526
United Grocers, Inc.	Warehouse/Offices/Retail Trade	500	1,400
Camp Withycombe	Oregon National Guard	419	270
OECO Corp.	Power supplies and magnetics products	300	N/A
Pacific Seafood, Inc	Distribution Center	300	N/A
TNT Reddaway	Trucking	200	325
Gourmet Award Foods NW	Distribution Center	N/A	500
Nordstrom	Department Store	N/A	350

Source: North Clackamas County Chamber of Commerce

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

Fiscal Year Ended June 30,	Administrative	Operational	Total
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
2004	7.5	27	34.5
2003	12	29	41

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)	Miles of Water Mains (2)	Water Storage Capacity (MGD) (3)	Number of Pump Stations
2012	942	8.14	262	24.35	10
2011	942	8.00	210	23.05	10
2010	942	8.14	210	23.05	10
2009	942	8.67	210	23.05	10
2008	942	8.79	210	23.05	10
2007	942	8.01	210	23.05	10
2006	942	8.40	210	22.95	10
2005	942	9.30	210	22.95	10
2004	942	9.90	204	22.95	10
2003	942	9.47	204	22.95	10
2002	942	9.43	204	22.95	10

(1) Average Daily Production at Clackamas River Water's Water Treatment Plant

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

(3) MGD is Million Gallons per Day

Source: Clackamas River Water Records

AUDIT COMMENTS
& DISCLOSURES
REQUIRED BY STATE
REGULATIONS



Clackamas River Water

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

Board of Commissioners
Clackamas River Water

We have audited the basic financial statements of Clackamas River Water, Clackamas, Oregon as of and for the year ended June 30, 2012, and have issued our report thereon dated December 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether Clackamas River Water's (District) basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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

- 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 2012 and 2013.
- 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.

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We did identify other internal control matters that we have reported to management in a separate letter.

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
December 28, 2012