

**FINANCIAL
STATEMENTS
AND SUPPLEMENTARY
INFORMATION**

For The Year Ended June 30, 2010



Clackamas River Water

CLACKAMAS, OREGON

**CLACKAMAS RIVER WATER
CLACKAMAS, OREGON**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the year ended June 30, 2010

Prepared by:

Clackamas River Water
Finance, Accounting and Customer Service Department

Lee E. Moore, Sr., General Manager
Carol Bryck, Chief Financial Officer

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CLACKAMAS RIVER WATER

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

Commissioners June 30, 2010

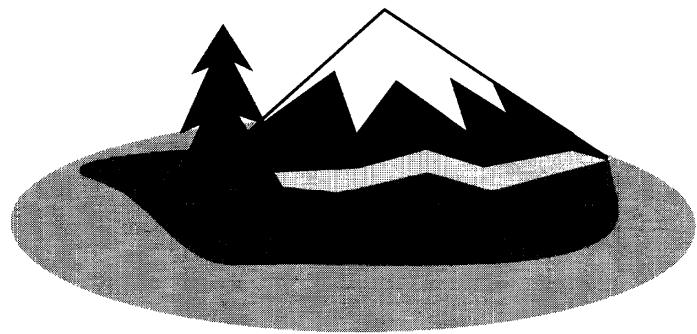
Name	Term Expires
Cyndi Lewis-Wolfram, President	June 30, 2011
Barbara Kemper, Secretary	June 30, 2013
Michael Cardwell, Treasurer	June 30, 2013
Patricia Holloway, Commissioner	June 30, 2011
Kami Kehoe, Commissioner	June 30, 2013

Leadership Team

Lee E. Moore, Sr	General Manager
Carol Bryck	Chief Finance Officer
Robert George	Engineering Manager
Rob Cummings	Production Manager
Donn Bunyard	System Operations Manager
Vacant	Manager Information Systems

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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, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MOSS-ADAMS LLP

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
June 22, 2011

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

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, 2010. 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, 2010 by \$57,375,903 (net assets). Of this amount, \$2,997,543 (unrestricted net assets) may be used to meet ongoing obligations and \$10,098,314 (restricted or reserved net assets) are held for debt service and capital projects. The balance \$44,280,046 is invested in capital assets, net of related debt.
- The total net assets increased by \$679,066 over the course of the prior year. The primary reason for the increase was due to investment in capital assets without a corresponding increase in related debt.
- Total Operating Revenues were \$7,164,799, and decreased by \$298,538 from the prior year, primarily due to continued economic slowdown in the region. Operating Expenses before depreciation totaled \$6,610,472, an increase of \$389,094 from the prior year. The main contributing factors include increased cost of water purchases and treatment, legal, materials and capital outlay expenditures. The difference between revenues and operating expenses resulted in a Net Operating Loss totaling \$1,152,917.
- CRW has, at June 30, 2010, \$49,098,769 of capital assets net of accumulated depreciation. This is an increase of \$899,020 from the prior year. The financial statements of CRW also recognized \$1,707,244 in depreciation expense in the current fiscal year.
- During fiscal year 2010 the District refunded the Series 1999 Revenue bonds to take advantage of lower interest rates for the remaining life of the bonds.

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 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.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2010**

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, used 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

	2010	2009	Difference 2009-2010	Percent Change
Assets				
Current Assets	\$13,798,972	\$15,121,980	(\$1,323,008)	-8.7%
Other Assets	172,731	146,382	26,349	18.0%
Capital Assets	49,098,769	48,199,749	899,020	1.9%
Total Assets	<u>63,070,472</u>	<u>63,468,111</u>	<u>(397,639)</u>	<u>-0.6%</u>
Liabilities				
Current Liabilities	1,394,260	1,996,274	(602,014)	-30.2%
Non-Current Liabilities	4,300,309	4,775,000	(474,691)	-9.9%
Total Liabilities	<u>5,694,569</u>	<u>6,771,274</u>	<u>(1,076,705)</u>	<u>-15.9%</u>
Net Assets				
Invested in capital assets, net of related debt	44,280,046	42,989,749	1,290,297	3.0%
Restricted	10,098,314	10,354,518	(256,204)	-2.5%
Unrestricted	2,997,543	3,352,570	(355,027)	-10.6%
Total net assets	<u>\$57,375,903</u>	<u>\$56,696,837</u>	<u>\$679,066</u>	<u>1.2%</u>

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2010**

Total assets decreased for this fiscal year by \$397,639. Total assets were \$63,070,472 and \$63,468,111 for fiscal years ended June 30, 2010 and 2009, respectively. Current assets decreased by \$1,323,008, and capital assets increased by \$899,020 for fiscal year 2010. The primary decrease in current assets is from accounts receivable from a Federal grant and shared-cost capital projects. The increase in capital assets is due to construction of infrastructure.

Total liabilities decreased 15.9 percent during fiscal year 2010. Total liabilities were \$5,694,569 and \$6,771,274 for fiscal years ended June 30, 2010 and 2009, respectively. Current liabilities decreased by \$602,014 (30.2 percent) during fiscal year 2010. This decrease was primarily due to a decrease in accounts payable at the end of fiscal year 2010. Non-current liabilities decreased \$474,691 (9.9 percent). During the fiscal year ended June 30, 2010 the District refunded the previous outstanding debt. The refunded debt will take advantage of lower interest rates saving the District \$709,121 over the remaining years of the debt.

Net assets may serve as a useful indicator of CRW's financial position. As of June 30, 2010 and 2009, assets exceeded liabilities by \$57,375,903 and \$56,696,837, respectively. This was an increase of \$679,066 (1.2 percent) over fiscal year 2009. This is due in part to an increase of \$1,290,297 (3.0 percent) invested in capital assets, net of related debt totaling \$44,280,046. A decrease of \$256,204 (2.5 percent) occurred in restricted net assets totaling \$10,098,314 compared to fiscal year 2009. These assets are considered restricted or reserved assets and account for 17.6 percent of the total net assets. Unrestricted 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.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2010**

Summary of Change in Revenues and Expenses and Net Assets

	2010	2009	Difference 2009-2010	Percent Change
Operating Revenues:				
Water sales	\$6,885,983	\$7,133,729	(\$247,746)	-3.5%
Other	278,816	329,608	(50,792)	-15.4%
Total Operating Revenues	7,164,799	7,463,337	(298,538)	-4.0%
Nonoperating Revenues:				
Federal awards & other	624,809	925,798	(300,989)	-32.5%
Interest Earnings	78,123	257,588	(179,465)	-69.7%
Rental Income	84,775	68,647	16,128	23.5%
Loss from disposal of capital assets	-	(523)	523	N/A
Other	183,637	85,861	97,776	113.9%
Total Revenues	8,136,143	8,800,708	(664,565)	-7.6%
Operating Expenses				
Water Resources	2,186,667	2,188,474	(1,807)	-0.1%
System Operations	1,295,568	1,460,683	(165,115)	-11.3%
Finance, Accounting and Customer Service	923,743	-	923,743	N/A
Administrative Services	1,808,687	2,407,023	(598,336)	-24.9%
Engineering	404,518	367,106	37,412	10.2%
Board of Commissioners	138,314	-	138,314	N/A
Less:				
Overhead, equipment and labor capitalized	(147,025)	(201,908)	54,883	-27.2%
Subtotal	6,610,472	6,221,378	389,094	6.3%
Depreciation	1,707,244	1,727,249	(20,005)	-1.2%
Interest Expense	129,335	271,626	(142,291)	-52.4%
Total Expenses	8,447,051	8,220,253	226,798	2.8%
Income (loss) before capital contributions	(310,908)	580,455	(891,363)	-153.6%
Capital Contributions & SDCs	989,974	263,938	726,036	275.1%
 Increase in to Net Assets	 679,066	 844,393	 (165,327)	 -19.6%
 Total Net Assets - Beginning	 56,696,837	 55,852,444	 844,393	 1.5%
 Total Net Assets - Ending	 \$57,375,903	 \$56,696,837	 \$679,066	 1.2%

Total Revenues decreased \$664,565 or 7.6 percent for fiscal year 2010. Total revenue was \$8,136,143 and \$8,800,708 for fiscal years ended June 30, 2010 and 2009, respectively. Decreases were noted in interest earnings due to a decrease in interest rates and Federal award and other due to completion of the FEMA grant project. Increases occurred in other operating revenue due to service charges on delinquent accounts. The increase in non-operating income is due to the receipt of a portion of remodeling expenses related to the Administrative office remodel from PetRX, Inc. during fiscal year 2010.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2010**

Expenses incurred by the six departments (Water Resources, System Operations, Finance, Accounting and Customer Service, Administrative Services, Engineering and Board of Commissioners) totaled \$6,610,472 and \$6,221,378 for the fiscal years ended June 30, 2010 and 2009, respectively for an increase of \$389,094. A significant portion of the increase is due to the cost of the remodel of the Administration building to accommodate the PetRX expansion.

Water Resources is responsible for CRW's water sources including treating, filtering and pumping water from the treatment plant or buying water from other agencies. System Operations oversees the water distribution system as well as maintenance and improvement of the infrastructure (waterline 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 related to the District's water system. The Board is responsible for the expenses related to the Board of Commissioners.

The System Operations department experienced a decrease of \$165,115 (11.3 percent) in expenses when compared to fiscal year 2009. System Operations department expenses decrease was due to common expenses moving to the Administrative Services department central services program. This was partially offset by increases in personal services costs and miscellaneous maintenance supply expenses.

The Finance, Accounting and Customer Service (FACS) department has expenditures of \$923,942 during fiscal year 2010. The FACS department was part of the Administrative Services department during fiscal year 2009.

The Administrative Services department had a \$598,336 (24.9 percent) decrease in its expenses when compared to fiscal year 2009. Administrative Services department expenses decreased due to Finance, Accounting and Customer Services and Board of Commissioners becoming their own departments. This was partially offset by increases in building and ground maintenance, insurance, security, telecommunication, and employee relation expenditure moving from other departments to a central services program.

The Engineering department had a \$37,412 (10.2 percent) increase in expenditures when compared to fiscal year 2009. The Engineering department increase was due to fewer hours being allocated to Capital projects in fiscal year 2010, specifically because of the reduction of Federal Grant activity during the year.

The Board department has expenditures of \$138,314 during fiscal year 2010. The Board Department was part of the Administrative Services department during fiscal year 2009.

The overhead, equipment and labor capitalized decreased 27.2 percent for fiscal year 2010. Overhead, equipment and labor capitalized was \$147,025 and \$201,908 for fiscal years ended June 30, 2010 and 2009, respectively. Fewer hours of personal services were allocated to capital projects during the fiscal year.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2010**

Depreciation expenses decreased 1.2 percent for fiscal year 2010. Depreciation expense was \$1,707,244 and \$1,727,249 for fiscal years ended June 30, 2010 and 2009, respectively. Depreciation expense decreased due to aging assets that are fully depreciated and is appropriate for the assets placed in service. Interest expense was \$129,335 and \$271,626 for fiscal years ended June 30, 2010 and 2009, respectively and is primarily for debt service.

Budgetary Highlights

There were no significant changes made between the original and final General Fund budget amounts for fiscal year 2010. A condensed version of the Fund Budgetary Comparison Schedule for the year ended June 30, 2010, follows:

Budget Comparison Schedule – General Fund

	<u>Final budget</u>	<u>Actual</u>	Variance wth Final Budget Favorable (Unfavorable)
General Fund Receipts	<u>\$ 7,642,000</u>	<u>\$ 7,548,450</u>	<u>\$ (93,550)</u>
Disbursements			
Personal Services	3,414,100	3,346,402	67,698
Material & services	3,788,450	3,296,508	491,942
Capital outlay	429,000	382,154	46,846
Total disbursements	<u>7,631,550</u>	<u>7,025,064</u>	<u>606,486</u>
Other financing sources (uses)	<u>(752,832)</u>	<u>(724,075)</u>	<u>28,757</u>
Changes in Fund Balances	<u>(742,382)</u>	<u>(200,689)</u>	<u>(541,693)</u>

Actual revenue was \$93,550 under budget due to a cooler and wetter spring which reduced residential water use. Fund balances decreased by \$200,689, which was less than the budget by \$541,693.

Capital Assets

At June 30, 2010, the District had \$49,098,769 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. CRW had \$4,566,830 in additions or transfers during fiscal year 2010, of that amount \$1,325,152 of additions were for improvement to the water distribution system. CRW had \$337,193 of construction-in-progress at June 30, 2010. Also included is \$2,158,367 for seismic upgrades to the water treatment plant and reservoirs. These improvements were partially funded (75 percent) by a FEMA award through Clackamas County, under an Intergovernmental Cooperative Agreement Pre-Disaster Mitigation program contract. In fiscal year 2010, CRW expensed \$1,707,244 in depreciation. Additional information on capital assets can be found in the Notes to the Basic Financial Statements.

**CLACKAMAS RIVER WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2010**

Debt Administration

CRW's bonded debt is categorized as either a general obligation of the District (backed by the full faith and credit of the District including the ability to levy taxes to pay for debt) or revenue bonds (debt to be retired by revenue sources other than taxes). General obligation bonded debt is retired by revenues (such as water sales) even though taxes could be levied.

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. Additional information regarding the District's long term debt can be found in the Notes to the Basic Financial Statements.

Economic Factors and Next Year's Budget and Rates

The Board of commissioners adopted the District's 2010-2011 budget on May 13, 2010. The adoption of the budget provides funding for the District's operation, capital and debt service costs for the 2010-2011 fiscal year. Several capital projects are funded in this budget including adjustments to water mains and services necessitated by Oregon Department of Transportation or Clackamas County Department of Transportation and Development projects, replacing existing pump motor starters at the water treatment plant, design and installation of an emergency generator system, Henrici-Glen Oak transmission main replacement, design and construction of 1,300 feet of waterline at Beavercreek Road and Ferguson Road, upgrade of waterline on Alder Place in conjunction with the North Clackamas County Revitalization Area sewer upgrade project as well as other waterline relocations as needed, Hwy 212 and Lawnfield relocations in connection with County road resurfacing and upgrades, and design of Carver Bridge transmission main.

The water rates are reviewed by staff and the Board of Commissioners on an annual basis. No rate increase is budgeted in fiscal year 2010-2011.

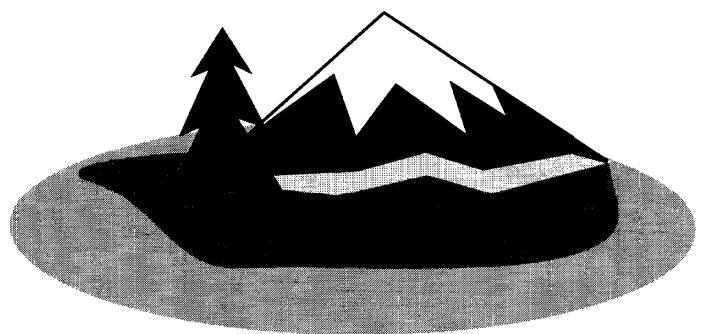
Request for Information

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.



Carol Bryck, CPFO, CTP
Chief Financial Officer

FINANCIAL STATEMENTS



Clackamas River Water

**CLACKAMAS RIVER WATER
STATEMENT OF NET ASSETS
for the year ended June 30, 2010**

ASSETS:

Current assets:

Cash and cash equivalents	\$ 1,781,618
Cash held for customer deposits	73,946
Accounts receivable, net	1,373,667
Grants receivable	60,690
Supplies inventory	200,105
Current portion of notes receivable	15,944
Unamortized bond issuance cost	4,678
Prepaid expenses and other receivables	<u>163,667</u>
Current assets - unrestricted	<u><u>3,674,315</u></u>
Cash and cash equivalents - restricted	<u><u>10,124,657</u></u>
Total current assets	<u><u>13,798,972</u></u>

Noncurrent Assets:

Capital assets not being depreciated	2,778,696
Capital assets, net of accumulated depreciation	46,320,073
Unamortized bond issuance cost	43,699
Notes receivable	<u>129,032</u>
Total noncurrent assets	<u><u>49,271,500</u></u>

TOTAL ASSETS

\$ 63,070,472

LIABILITIES:

Current liabilities:

Accounts payable	\$ 435,599
Accrued expenses	334,764
Deferred revenue and customer deposits	79,140
Accrued interest	26,343
Current portion of bonds payable	<u>518,414</u>
Total current liabilities	<u><u>1,394,260</u></u>

Noncurrent liabilities:

Bonds payable	<u>4,300,309</u>
Total noncurrent liabilities	<u><u>4,300,309</u></u>

TOTAL LIABILITIES

5,694,569

NET ASSETS:

Investment in capital assets, net of related debt	44,280,046
Net assets - restricted	10,098,314
Net assets - unrestricted	<u>2,997,543</u>

TOTAL NET ASSETS

57,375,903

TOTAL LIABILITIES AND NET ASSETS

\$ 63,070,472

CLACKAMAS RIVER WATER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the year ended June 30, 2010

OPERATING REVENUES:

Water sales	\$ 6,885,983
Water service connections fees	41,371
Water service extension fees	12,052
Service charges on past due accounts	183,232
Other	42,161
Total operating revenues	<u>7,164,799</u>

OPERATING EXPENSES:

Water resources	2,186,667
System operations	1,295,568
Finance, accounting and customer service	923,743
Administrative services	1,808,687
Engineering	404,518
Board of commissioners	138,314
Less: Capitalized labor and overhead	(147,025)
Depreciation and amortization	1,707,244
Total operating expenses	<u>8,317,716</u>

OPERATING LOSS

(1,152,917)

NONOPERATING REVENUES (EXPENSES):

Federal award and other	624,809
Interest expense, net	(129,335)
Interest earnings on cash equivalents	78,123
Rental income	84,775
Interest income from note receivable	9,319
Other	174,318
Total nonoperating revenues	<u>842,009</u>

LOSS BEFORE CONTRIBUTIONS

(310,908)

SYSTEM DEVELOPMENT CHARGES

107,380

CAPITAL CONTRIBUTIONS

882,594

CHANGE IN NET ASSETS

679,066

NET ASSETS - BEGINNING OF YEAR

56,696,837

NET ASSETS - END OF YEAR

\$ 57,375,903

**CLACKAMAS RIVER WATER
STATEMENTS OF CASH FLOWS
for the year ended June 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 7,543,898
Cash payments to suppliers for goods and services	(3,967,046)
Cash payments to employees for services	(3,523,507)
NET CASH PROVIDED BY OPERATING ACTIVITIES	53,345

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:**

Principal paid on revenue bonds	(435,000)
Interest paid on revenue bonds, net of amount capitalized	(210,086)
Net proceeds on bond refunding	23,807
System development charges received	107,380
Grant revenue	1,358,663
Acquisition and construction of capital assets	(1,544,753)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(699,989)

**CASH FLOWS FROM NONCAPITAL AND RELATED
FINANCING ACTIVITIES:**

Rents received	84,775
Collections on notes receivable	17,749
Interest received on notes receivable	9,319
Other	174,318
NET CASH FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	286,161

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received on investments	78,123
NET CASH FROM INVESTING ACTIVITIES	78,123

NET CHANGE IN CASH AND CASH EQUIVALENTS	(282,360)
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,262,581
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CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 11,980,221
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CLACKAMAS RIVER WATER
STATEMENTS OF CASH FLOWS (Continued)
for the year ended June 30, 2010

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

Operating loss	<u>\$ (1,152,917)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	1,707,244
Capitalized labor and overhead	(147,025)
Changes in assets and liabilities:	
Decrease in accounts receivable	369,997
Increase in inventory of supplies	(24,472)
Increase in other prepaid expenses	(34,452)
Decrease in accounts payable	(628,029)
Decrease in accrued expenses	(46,104)
Increase in deferred revenue	9,103
Total adjustments	<u>1,206,262</u>
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 53,345</u>

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

Donated capital assets	<u>\$ 860,815</u>
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**CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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

Following is a summary of the significant accounting policies utilized by the District:

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.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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.

CRW Reserve Fund:

The CRW Reserve Fund accounts for the District's resources used for three purposes: restricted system development, reserved bond rate stabilization and reserved capital improvement. When budgeted, resources are transferred to another fund (usually the CIP Fund or the General Fund) and used for their specific purpose. This fund was closed during fiscal year 2009-10 and replaced with three new reserve funds.

Revenue Bond Fund:

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

Federal Grant Fund:

The Federal Grant Fund accounts for resources received (or receivable) from federal grant sources.

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.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Use of Estimates:

The preparation of financial statements in conformity with 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.

The Department records amounts due from the filing of Federal Emergency Management Agency ("FEMA") claims as grants receivable.

Supplies Inventory:

Supplies inventory consists of operating supplies and repair parts which are stated at the lower of cost or market, with cost being determined on the last-in-first-out basis.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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 % of internal costs and 4.6 % of outside costs and totaled \$147,025 for the year ended June 30, 2010. Capitalized interest is allocated based on the weighted average net borrowing costs incurred and totaled \$53,672 for the year ended June 30, 2010.

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

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

Bond premiums 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.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Compensated Absences:

The District provides paid vacation for all employees after six months of service. Vacation is earned at a rate of ten to thirty days per year depending on length of service (except for employees with more than fifteen years of service 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 the District’s Board of Commissioner’s 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.

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).

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 the year ended June 30, 2010.

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 (see below). 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.

There were no supplemental budgets during fiscal 2010. The District made an appropriation transfer in the CIP fund from the materials and services category to the personal services category.

A summary of the District's Fiscal Year 2009-2010 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, 2010

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at June 30, 2010:

Cash deposited with financial institutions	\$ 486,772
Money market accounts	147,381
Cash on hand	<u>900</u>
	635,053
Local Government Investment Pool (LGIP)	<u>11,345,168</u>
Total cash and cash equivalents	<u>\$ 11,980,221</u>

Reported on the Statement of Net Assets as follows:

Current Assets:	
Cash and cash equivalents	\$ 1,781,618
Customer deposits	73,946
Noncurrent assets:	
Restricted and reserved cash and cash equivalents	<u>10,124,657</u>
Total cash and cash equivalents	<u>\$ 11,980,221</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, 2010, is \$790,103. 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 at June 30, 2010 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, 2010

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, 2010:

Water sales receivables	\$ 915,819
Unbilled water sales	442,000
Less allowance for uncollectible accounts	<u>(10,000)</u>
Total water sales receivable	1,347,819
Other	<u>25,848</u>
Total accounts receivable, net	<u>\$ 1,373,667</u>

Accounts receivable are stated at cost and are unsecured. Management determines receivables to be past due based on individual circumstances and writes off accounts when they are determined to be uncollectible. The District's collection program includes applying service charges to past due accounts, extending payment terms and, if needed, discontinuing water services. Receivables more than 90 days past due totaled \$29,958 at June 30, 2010.

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, 2010

5. NOTE RECEIVABLE

The District's note receivable consists of the following at June 30, 2010:

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	\$ 144,976
Less amount due within one year	<u>(15,944)</u>
Amount due after one year	<u>\$ 129,032</u>

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

<u>Year</u>	<u>Amount</u>
2011	\$ 15,944
2012	18,421
2013	19,557
2014	20,763
2015	22,044
Thereafter	<u>48,247</u>
	<u><u>\$ 144,976</u></u>

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

6. CAPITAL ASSETS

The District's capital assets activity for the year ended June 30, 2010 is as follows:

	Balances June 30, 2009	Additions and Transfers	Retirements and Transfers	Balances June 30, 2010
Depreciable Assets:				
Buildings	\$ 6,853,241	\$ -	\$ -	\$ 6,853,241
Improvements	5,344,485	2,347,735	-	7,692,220
Machinery, furniture and equipment	3,262,300	332,256	(122,339)	3,472,217
Pump stations	3,910,476	-	-	3,910,476
Reservoirs	5,993,595	561,686	-	6,555,281
Water distribution system	47,849,266	1,325,153	-	49,174,419
	<u>73,213,363</u>	<u>4,566,830</u>	<u>(122,339)</u>	<u>77,657,854</u>
Accumulated depreciation:				
Buildings	(3,891,285)	(215,155)	-	(4,106,440)
Improvements	(1,986,373)	(201,703)	-	(2,188,076)
Machinery, furniture and equipment	(2,328,465)	(109,628)	122,339	(2,315,754)
Pump stations	(2,197,231)	(136,671)	-	(2,333,902)
Reservoirs	(1,970,560)	(123,335)	-	(2,093,895)
Water distribution system	(17,378,962)	(920,752)	-	(18,299,714)
	<u>(29,752,876)</u>	<u>(1,707,244)</u>	<u>122,339</u>	<u>(31,337,781)</u>
Total depreciable assets, net	43,460,487	2,859,586	-	46,320,073
Nondepreciable assets:				
Land and easements	2,441,502	-	-	2,441,502
Construction in Progress	2,297,760	1,314,175	(3,274,741)	337,194
Total nondepreciable assets	4,739,262	1,314,175	(3,274,741)	2,778,696
Total capital asset activity	\$ 48,199,749	\$ 4,173,761	\$ (3,274,741)	\$ 49,098,769

Depreciation expense charged to operations totaled \$1,707,244 for the year ended June 30, 2010.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010 is as follows:

	Balances June 30, 2009	Additions	Payments & Decreases	Balances June 30, 2010	Amount due within one year	Long-term portion
Revenue Bonds - 1999	\$ 5,210,000	\$ -	\$ (5,210,000)	\$ -	\$ -	\$ -
Revenue Bonds - 2009	-	4,680,000	-	4,680,000	505,000	4,175,000
	5,210,000	4,680,000	(5,210,000)	4,680,000	505,000	4,175,000
Deferred on refunding	-	(31,592)	(1,800)	(29,792)	(2,881)	(26,911)
Unamortized premium	-	178,698	(10,184)	168,514	16,295	152,219
	<u>\$ 5,210,000</u>	<u>\$ 4,827,106</u>	<u>\$ (5,221,984)</u>	<u>\$ 4,818,722</u>	<u>\$ 518,414</u>	<u>\$ 4,300,308</u>

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

Fiscal Year	Principal	Interest
2011	\$ 505,000	\$ 150,485
2012	510,000	135,260
2013	535,000	119,585
2014	340,000	106,460
2015	360,000	95,555
2016-2020	1,980,000	287,075
2021	450,000	9,000
	<u>4,680,000</u>	<u>903,420</u>
Deferred amount on refunding	(29,792)	-
Unamortized bond premium	168,514	-
	<u>\$ 4,818,722</u>	<u>\$ 903,420</u>

The District's revenue bonds are paid solely from the District's net operating revenue and certain other restricted assets pledged as payment for the bonds. The bonds are not funded by tax charges and are not general obligations of the District. For the fiscal year ended June 30, 2010, the District was in compliance with the covenants associated with these bonds.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

7. BONDS PAYABLE, Continued

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.

8. ACCRUED EXPENSES

Accrued expenses consist of the following at June 30, 2010:

Compensated Absences	\$ 190,721
Payroll	117,564
PERS (note 11)	20,840
Payroll Taxes and other	<u>5,639</u>
	<u><u>\$ 334,764</u></u>

9. RENTAL INCOME

The District leases approximately 5,000 square feet of its administration office building in Clackamas, Oregon to Pet RX, Inc. under an agreement 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 includes a rent escalation clause, increasing the rent based on the increase in the Consumer Price Index ("CPI"), provided that in no event shall the increase be less than 2% nor more than 4% per square foot per year.

Rental income is recognized as non-operating revenue and totaled \$84,775 for the year ended June 30, 2010.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

9. RENTAL INCOME, Continued

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

Fiscal Year	Amount
2011	\$ 88,954
2012	90,733
2013	92,548
2014	94,399
2015	96,287
Thereafter	<u>880,808</u>
	<u>\$ 1,343,729</u>

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 \$2,920 for the year ended June 30, 2010.

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 \$19,270 for the year ended June 30, 2010.

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

Fiscal Year	Amount
2011	\$ 18,470
2012	18,470
2013	9,356
2014	6,962
2015	<u>3,409</u>
	<u>\$ 56,667</u>

The District leases various other office equipment under month-to-month agreements. Rent expense charged to operations under all operating leases totaled \$26,004 for the year ended June 30, 2010.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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.

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 2010 was 12.64% and 12.36% for PERS and OPSRP, respectively.

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

11. PENSION PLANS, Continued

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, 2010, the District's required and actual contribution was \$319,417. 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 contribution for the year ended June 30, 2010 was 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.

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

Year Ended June 30,		Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$	319,417	100%	\$ -
2009		333,863	100%	-
2008		325,222	100%	-

CLACKAMAS RIVER WATER
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, which 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 \$11,637 for the year ended June 30, 2010.

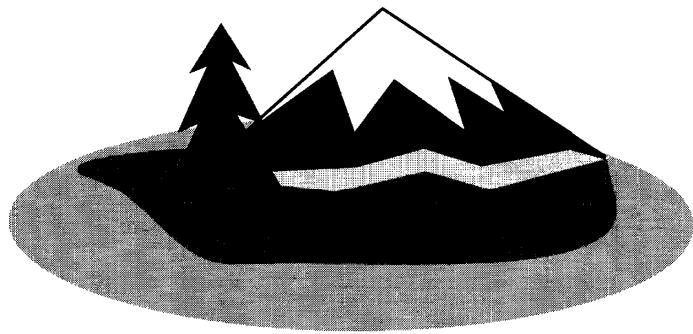
Construction Commitments:

Construction in progress totaled approximately \$350,000 at June 30, 2010. These projects are expected to be completed and placed in service during fiscal year 2011 for additional costs totaling approximately \$500,000.

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 CRW Reserve Fund and interest earnings.

CRW Reserve Fund

The CRW Reserve Fund accounts for funds reserved for future expansion and improvements to the system. The primary resources are interest earned and systems development charges. This fund was closed June 30, 2009.

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.

Federal Grant Fund

The Federal Grant Fund tracks revenue received from Federal programs that may require a single audit. The federal revenues are for capital projects that enhance the security of the district. The primary resource is monies from Federal programs.

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.

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CLACKAMAS RIVER WATER
GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
for the year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)
Revenues:				
Water sales	\$ 7,207,300	\$ 7,207,300	\$ 6,885,983	\$ (321,317)
Service connections	20,750	20,750	41,371	20,621
Service charges	100,000	100,000	183,232	83,232
Miscellaneous - operating	40,000	40,000	51,146	11,146
Rental income	109,150	109,150	110,436	1,286
Miscellaneous - nonoperating	132,000	132,000	267,008	135,008
Surplus property sale	25,000	25,000	-	(25,000)
Interest income	7,800	7,800	9,274	1,474
Total revenues	7,642,000	7,642,000	7,548,450	(93,550)
Other financing sources:				
Transfers from other funds:				
Bond Construction Fund	-	-	-	-
Capital Improvement Projects Fund	39,760	39,760	-	(39,760)
CRW Reserve Fund	10,750,000	10,750,000	10,354,518	(395,482)
Revenue Bond Fund	-	-	52,107	52,107
Rate Stabilization Reserve Fund	25,000	25,000	-	(25,000)
Total other financing sources	10,814,760	10,814,760	10,406,625	(408,135)
Total revenues and other financing sources	18,456,760	18,456,760	17,955,075	(501,685)
Beginning fund balance available for appropriation	2,100,000	2,100,000	2,925,586	825,586
	\$ 20,556,760	\$ 20,556,760	\$ 20,880,661	\$ 323,901

CLACKAMAS RIVER WATER
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under
Expenditures:				
Water Resources:				
Personal services	\$ 836,800	\$ 836,800	\$ 777,666	\$ 59,134
Materials and services	1,449,550	1,449,550	1,409,001	40,549
Capital outlay	57,000	57,000	40,514	16,486
	2,343,350	2,343,350	2,227,181	116,169
System Operations:				
Personal services	971,000	971,000	905,926	65,074
Materials and services	420,700	420,700	389,642	31,058
Capital outlay	60,000	60,000	5,266	54,734
	1,451,700	1,451,700	1,300,834	150,866
Finance, Accounting, & Customer Service				
Personal services	684,100	684,100	638,198	45,902
Materials and services	362,700	362,700	285,545	77,155
Capital outlay	-	-	10,000	(10,000)
	1,046,800	1,046,800	933,743	113,057
Administrative Services:				
Personal services	449,700	449,700	563,971	(114,271)
Materials and services	1,310,900	1,310,900	1,126,834	184,066
Capital outlay	290,000	290,000	316,910	(26,910)
	2,050,600	2,050,600	2,007,715	42,885
Board of Commissioners				
Personal services	93,000	93,000	89,655	3,345
Materials and services	82,300	82,300	48,659	33,641
Capital outlay	-	-	138,314	-
	175,300	175,300	138,314	36,986
Engineering				
Personal services	379,500	379,500	370,986	8,514
Materials and services	162,300	162,300	36,827	125,473
Capital outlay	22,000	22,000	9,464	12,536
	563,800	563,800	417,277	146,523
Contingency	500,000	500,000	-	500,000
Total expenditures	8,131,550	8,131,550	7,025,064	1,106,486
Other financing uses:				
Transfers to other funds:				
Capital Improvement Projects Fund	16,787	16,787	-	16,787
Capital Reserve Fund	2,920,000	2,920,000	2,454,428	465,572
Rate Stabilization Reserve Fund	2,226,000	2,226,000	2,229,788	(3,788)
SDC Reserve Fund	6,104,000	6,104,000	6,170,302	(66,302)
Revenue Bond Fund	300,805	300,805	276,182	24,623
Total other financing uses	11,567,592	11,567,592	11,130,699	436,893
Total expenditures and other financing uses	19,699,142	19,699,142	18,155,763	1,543,379
Unappropriated ending fund balance	857,618	857,618	2,724,898	(1,867,280)
	\$ 20,556,760	\$ 20,556,760	\$ 20,880,661	\$ (323,901)

CLACKAMAS RIVER WATER
CAPITAL IMPROVEMENT PROJECTS FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)
Revenues:				
Interest income	\$ -	\$ -	\$ 1,482	\$ 1,482
Grants	- -	- -	3,066	3,066
Total revenues	- -	- -	4,548	4,548
Other financing sources				
Transfers from other funds:				
General Fund	16,787	16,787	- -	(16,787)
CRW Reserve Fund	- -	- -	- -	- -
SDC Reserve Fund	1,460,588	1,460,588	534,000	(926,588)
Federal Grant Fund	778,125	778,125	537,734	(240,391)
Total other financing sources	2,255,500	2,255,500	1,071,734	(1,183,766)
Total revenues and other financing sources	2,255,500	2,255,500	1,076,282	(1,179,218)
Beginning fund balance available for appropriations	200,000	200,000	315,923	115,923
	\$ 2,455,500	\$ 2,455,500	\$ 1,392,205	\$ (1,063,295)
Expenditures:				
Personal services	\$ 129,500	\$ 219,500	\$ 214,838	\$ 4,662
Materials and services	2,286,240	2,196,240	1,094,950	1,101,290
Total expenditures	2,415,740	2,415,740	1,309,789	1,105,951
Other financing uses:				
Transfer to General Fund	39,760	39,760	- -	39,760
Total expenditures and other financing uses	2,455,500	2,455,500	1,309,789	1,145,711
Unappropriated ending fund balance	- -	- -	82,416	(82,416)
	\$ 2,455,500	\$ 2,455,500	\$ 1,392,205	\$ 1,063,295

**CLACKAMAS RIVER WATER
CRW RESERVE FUND**
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)
Revenues:				
Interest income	\$ -	\$ -	\$ -	\$ -
System development charges	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning fund balance available for appropriations	10,750,000	10,750,000	10,354,518	(395,482)
	<u>\$ 10,750,000</u>	<u>\$ 10,750,000</u>	<u>\$ 10,354,518</u>	<u>\$ (395,482)</u>

	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under
Other financing uses:				
Transfers to other funds:				
General Fund	\$ 10,750,000	\$ 10,750,000	\$ 10,354,518	\$ 395,482
Capital Improvement Projects Fund	-	-	-	-
Total other financing uses	<u>10,750,000</u>	<u>10,750,000</u>	<u>10,354,518</u>	<u>395,482</u>
Unappropriated ending fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,750,000</u>	<u>\$ 10,750,000</u>	<u>\$ 10,354,518</u>	<u>\$ 395,482</u>

CLACKAMAS RIVER WATER
REVENUE BOND FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)
Revenue:				
Interest income	\$ -	\$ -	\$ 1,842	\$ 1,842
Other financing sources:				
Transfers from other funds:				
General Fund	300,805	300,805	30,559	(270,246)
SDC Reserve Fund	403,656	403,656	41,007	(362,649)
Capital Reserve Fund	-	-	1,043,223	1,043,223
Bond proceeds from refunding	-	-	4,858,698	4,858,698
Total other financing sources	<u>704,461</u>	<u>704,461</u>	<u>5,973,487</u>	<u>5,269,026</u>
Total revenue and other financing sources	<u>704,461</u>	<u>704,461</u>	<u>5,975,329</u>	<u>5,270,868</u>
Beginning fund balance available for appropriations	-	-	-	-
	<u>\$ 704,461</u>	<u>\$ 704,461</u>	<u>\$ 5,975,329</u>	<u>\$ 5,270,868</u>
Expenditures:				
Principal on bonds	\$ 435,000	\$ 435,000	\$ 435,000	\$ -
Interest on bonds	269,461	269,461	196,639	72,822
Total expenditures	<u>704,461</u>	<u>704,461</u>	<u>631,639</u>	<u>72,822</u>
Other financing uses:				
Retire refunded debt	-	-	4,775,000	(4,775,000)
Transfer to General Fund	-	-	52,107	(52,107)
Total other financing uses	-	-	4,827,107	(4,827,107)
Total expenditures and other financing uses	<u>704,461</u>	<u>704,461</u>	<u>5,458,746</u>	<u>(4,754,285)</u>
Unappropriated ending fund balance	-	-	516,583	(516,583)
	<u>\$ 704,461</u>	<u>\$ 704,461</u>	<u>\$ 5,975,329</u>	<u>\$ (5,270,868)</u>

CLACKAMAS RIVER WATER
FEDERAL GRANT FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)
Revenues:				
Grants - FEMA	\$ 778,125	\$ 778,125	\$ 537,734	\$ (240,391)
Beginning fund balance available for appropriations	-	-	-	-
	\$ 778,125	\$ 778,125	\$ 537,734	\$ (240,391)
Other financing use:				
Transfer to Capital Improvement Projects Fund	\$ 778,125	\$ 778,125	\$ 537,734	\$ 240,391
Unappropriated ending fund balance	-	-	-	-
	\$ 778,125	\$ 778,125	\$ 537,734	\$ 240,391

**CLACKAMAS RIVER WATER
CAPITAL RESERVE FUND**
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Over (Under)</u>
Revenue:				
Interest income	\$ 24,200	\$ 24,200	\$ 12,121	\$ (12,079)
Other financing source:				
Transfer from General Fund	2,920,000	2,920,000	2,454,428	(465,572)
Total revenue and other financing source	<u>2,944,200</u>	<u>2,944,200</u>	<u>2,466,549</u>	<u>(477,651)</u>
Beginning fund balance available for appropriations	-	-	-	-
	<u>\$ 2,944,200</u>	<u>\$ 2,944,200</u>	<u>\$ 2,466,549</u>	<u>\$ (477,651)</u>

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget (Over) Under</u>
Other financing use:				
Transfer to Revenue Bond Fund	\$ -	\$ -	\$ 468,000	\$ (468,000)
Unappropriated ending fund balance	2,944,200	2,944,200	1,998,549	945,651
	<u>\$ 2,944,200</u>	<u>\$ 2,944,200</u>	<u>\$ 2,466,549</u>	<u>\$ 477,651</u>

**CLACKAMAS RIVER WATER
RATE STABILIZATION RESERVE FUND**
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)
Revenue:				
Interest income	\$ 22,010	\$ 22,010	\$ 15,138	\$ (6,872)
Other financing source:				
Transfer from General Fund	2,226,000	2,226,000	2,229,788	3,788
Total revenue and other financing source	<u>2,248,010</u>	<u>2,248,010</u>	<u>2,244,926</u>	<u>(3,084)</u>
Beginning fund balance available for appropriations	-	-	-	-
	<u>\$ 2,248,010</u>	<u>\$ 2,248,010</u>	<u>\$ 2,244,926</u>	<u>\$ (3,084)</u>

	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under
Other financing use:				
Transfer to General Fund	\$ 25,000	\$ 25,000	\$ -	\$ 25,000
Unappropriated ending fund balance	<u>2,223,010</u>	<u>2,223,010</u>	<u>2,244,926</u>	<u>(21,916)</u>
	<u>\$ 2,248,010</u>	<u>\$ 2,248,010</u>	<u>\$ 2,244,926</u>	<u>\$ 3,084</u>

**CLACKAMAS RIVER WATER
SDC RESERVE FUND**
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)
Revenues:				
Interest income	\$ 61,040	\$ 61,040	\$ 38,265	\$ (22,775)
System development charges	94,500	94,500	107,380	12,880
Total revenues	155,540	155,540	145,645	(9,895)
Other financing source:				
Transfer from General Fund	6,104,000	6,104,000	6,170,302	66,302
Total revenues and other financing source	6,259,540	6,259,540	6,315,947	56,407
Beginning fund balance available for appropriations	-	-	-	-
	\$ 6,259,540	\$ 6,259,540	\$ 6,315,947	\$ 56,407

	Original Budget	Final Budget	Actual	Variance to Final Budget (Over) Under
Other financing uses:				
Transfers to other funds:				
Capital Improvement Projects Fund	\$ 1,460,588	\$ 1,460,588	\$ 534,000	\$ 926,588
Revenue Bond Fund	403,656	403,656	370,607	33,049
Total other financing uses	1,864,244	1,864,244	904,607	959,637
Unappropriated ending fund balance	4,395,296	4,395,296	5,411,340	(1,016,044)
	\$ 6,259,540	\$ 6,259,540	\$ 6,315,947	\$ (56,407)

CLACKAMAS RIVER WATER
RECONCILIATION OF REVENUES AND EXPENDITURES
TO CHANGES IN NET ASSETS
for the year ended June 30, 2010

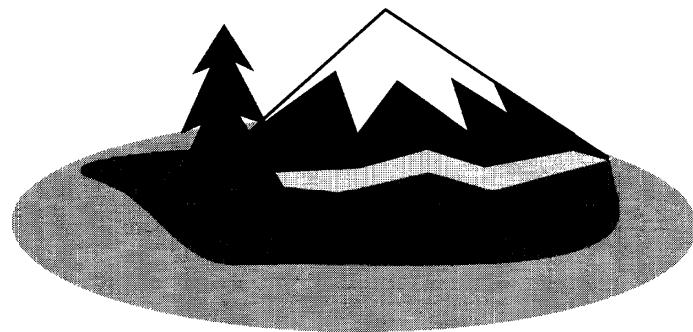
	Revenues	Expenditures	Net
General Fund	\$ 7,548,450	\$ 7,025,064	\$ 523,386
Capital Improvement Projects Fund	4,548	1,309,789	(1,305,241)
Revenue Bond Fund	1,842	631,639	(629,797)
Federal Grant Fund	537,734	-	537,734
Capital Reserve Fund	12,121	-	12,121
Rate Stabilization Reserve Fund	15,138	-	15,138
SDC Reserve Fund	<u>145,645</u>	<u>-</u>	<u>145,645</u>
	<u><u>\$ 8,265,478</u></u>	<u><u>\$ 8,966,492</u></u>	<u><u>(701,014)</u></u>

Add (deduct) items to reconcile to change in net assets

on a GAAP basis:

Expenditures capitalized	2,689,550
Payment of bond principal	435,000
Amortization of premiums, discounts and related deferrals	5,460
Decrease in accrued interest payable on long-term debt	(26,343)
Decrease in other receivables	(16,343)
Depreciation	<u>(1,707,244)</u>
Change in net assets	<u>\$ 679,066</u>

SINGLE AUDIT REPORTS
IN ACCORDANCE
WITH OMB CIRCULAR A-133



Clackamas River Water

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

To the Board of Commissioners
Clackamas River Water

We have audited the financial statements of Clackamas River Water (District) as of and for the year ended June 30, 2010, and have issued our report thereon dated June 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. See *Schedule of Findings and Questioned Costs Finding 2010-1*. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated June 22, 2011.

This report is intended solely for the information and use of management, the Board of Commissioners, state agencies, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Moss Adams LLP". The signature is fluid and cursive, with "Moss" and "Adams" connected at the top, and "LLP" at the end.

Portland, Oregon
June 22, 2011

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
Clackamas River Water

Compliance

We have audited Clackamas River Water's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2010. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profits Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are disclosed in the accompanying schedule of findings and questioned costs as items 2010-2 and 2010-03.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and

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material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-2 and 2010-3. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's responses to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Board of Commissioners, state agencies, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Moss Adams LLP". The signature is fluid and cursive, with "Moss" and "Adams" connected at the top, and "LLP" at the end.

Portland, Oregon
June 22, 2011

CLACKAMAS RIVER WATER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor / Program Title	Federal CFDA #	Expenditures
U.S. Department of Homeland Security, FEMA Pre-Disaster Mitigation (PDM): Federal Awards received as a sub-recipient under Clackamas County, Oregon Intergovernmental Cooperative Agreement Pre- Disaster Mitigation Program Contract FY05/PDM - C (ID # PDMC - PJ - 10 - OR - 2005 - 001)	97.047	\$ <u>537,734</u>

1. Summary of Significant Accounting Policies:

Basis of presentation - The Schedule of Expenditures of Federal Awards includes all Federal Awards expended by Clackamas River Water during the year ended June 30, 2010. This schedule has been prepared on the accrual basis of accounting.

**CLACKAMAS RIVER WATER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes no
- Significant deficiencies(s) identified? yes _____ none reported

Noncompliance material to financial statements noted? _____ yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes no
- Significant deficiencies (s) identified? yes _____ none reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes _____ no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
97.047	U.S. Department of Homeland Security, FEMA Pre-Disaster Mitigation

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes no

Section II – Financial Statement Findings

FINDING 2010-01 – Construction In Progress – Significant Deficiency

Criteria: When construction-in-progress is completed, the entity should record the project as a depreciable asset.

Condition: The District did not always close out construction-in-progress projects timely.

Context: One project was older and had been superseded by a different project and should have been closed to plant. One project completion was not communicated from engineering to accounting. Three other projects were placed in service but held in CIP for one year’s time to accumulate any warranty costs that increased the cost of the asset.

Effect: Construction-in-progress was overstated by \$2,380,344 and depreciable assets were understated by \$2,380,344.

**CLACKAMAS RIVER WATER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Cause: While the District has documented procedures in place, the District's staff were not following the procedures and did not understand when to notify staff in accounting to move projects to a depreciable asset.

Recommendation: The District should improve its communication between the accounting and engineering departments to ensure completed projects that are placed in service are identified and depreciated.

Views of responsible officials: *Management has taken steps to remedy this deficiency by initiating quarterly meetings between engineering and accounting to review all open projects and to determine appropriate completion/closing dates.*

Section III – Federal Award Findings and Questioned Costs

FINDING 2010-02 – OMB Circular A-87 Indirect Cost Allocation Plan – (Unresolved Finding 2009-01) – Significant Deficiency

Federal Program: FEMA Pre-Disaster Mitigation (PDM) – (Federal CFDA number 97.047)

Federal Agency: US Department of Homeland Security

Criteria: OMB Circular A-87 requires a cost allocation plan to be implemented to ensure an equitable allocation of indirect costs to all Federal Awards. OMB Circular A-87 also limits the type and amount of indirect and administrative costs that can be included in the cost allocation plan.

Condition: The District does not have a cost allocation plan as required under OMB Circular A-87.

Questioned Costs: Total overhead costs allocated to this Federal Award totaled \$33,419 during fiscal 2010.

Context: The District received \$537,733 of federal awards as a sub-recipient for pre-disaster mitigation.

Effect: The legal effect or potential legal effect is unknown; however, the effect on the financial statements is not material.

Cause: The District's employees are unaware of the OMB Circular A-87 requirements in the prior year and has not made it a priority to develop the plan in the current year due to staffing constraints.

Recommendation: The District should implement a cost allocation plan in accordance with OMB A-87. Once this is complete, the District should recalculate all costs previously allocated to the Federal Award to ensure they are not in excess of costs allowed.

Views of responsible officials: Management concurs that the overhead allocation rates need to be revised and will initiate a plan to review these rates and update the overhead calculation. The District will recalculate the costs previously allocated to the Federal Award with the updated overhead allocation rates.

**CLACKAMAS RIVER WATER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

FINDING 2010-03 – OMB Circular A-133 – Data Collection Form and Reporting Package – Significant Deficiency

Federal Program: FEMA Pre-Disaster Mitigation (PDM) – (Federal CFDA number 97.047)

Federal Agency: US Department of Homeland Security

Criteria: Federal guidelines states: 'The audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the Federal Cognizant or oversight agency for audit.

Condition: The District has yet to file their fiscal year 2009 data collection form and reporting package and is late in filing their fiscal year 2010 data.

Questioned Costs: None.

Context: During review of the prior year work papers, we found the District had not yet filed its Data Collection Form and Reporting Package. The District received \$537,733 of federal awards as a sub-recipient for pre-disaster mitigation during the current reporting period. As the audit was completed more than 9 months after the fiscal year end, the Data Collection Form and Reporting Package has also not been reported timely.

Cause: The District experienced turnover in staff and employees were unaware of the reporting time requirements.

Effect: The District is out of compliance with the reporting requirement. The ultimate potential legal effect is unknown; however, the effect on the financial statements is not material.

Recommendation: The District should ensure their financial audit is conducted timely to allow sufficient time to submit the data collection form and reporting package.

Views of responsible officials: *Management concurs with the auditor's recommendation and will endeavor to complete the financial audit timely. The data collection forms will be completed for both fiscal year 2009 and fiscal year 2010. The District does not currently have any Federal grant awards.*

Section IV – Schedule of Prior Federal Award Findings

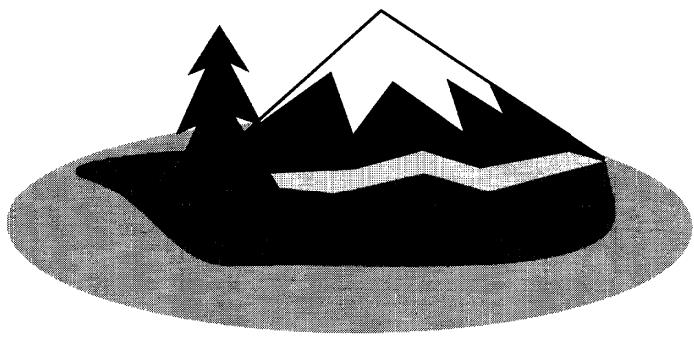
FINDING 2009-01 – OMB Circular A-87 Indirect Cost Allocation Plan

Condition: During the prior year, it was noted that the District does not have a cost allocation plan as required under OMB Circular A-87. Such plans ensure an equitable allocation of indirect costs to all Federal Awards.

Recommendation: The District should implement a cost allocation plan in accordance with OMB A-87. Once this is complete, the District should recalculate all costs previously allocated to the Federal Award to ensure they are not in excess of costs allowed.

Current Status: See Finding 2010-01.

AUDIT COMMENTS
& DISCLOSURES
REQUIRED BY STATE
& FEDERAL
REGULATIONS



Clackamas River Water

**INDEPENDENT AUDITOR'S REPORT 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, 2010, and have issued our report thereon dated June 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Oregon Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

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:

- 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 2010 and 2011.
- 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.

MOSS-ADAMS LLP**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *OREGON AUDITING STANDARDS* – (continued)**

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Except as discussed below, the results of our tests disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

Budget Process

The estimated expenditures for personal services should be broken out into salaries, retirement benefits, employment tax, insurance, etc., and must include a listing of the salaries for each officer and employee, except hour wage and part-time employees. Employees of like classification and salary range may be listed by the number of those employees, the limits of each range and the amount of their combined salaries. However, management should not be grouped all together, but have separate disclosure. We noted that the 2011 budget document omitted this information.

Public Contracts and Purchasing

The District has adopted a formal public contracting, least cost policy in accordance with ORS 279. However, the District has not always followed its policy as it relates to intermediate procurements or those contracts greater than \$5,000 but less than \$150,000. Specifically, the District did not always:

- Seek at least three informally solicited competitive price quotes or competitive proposals from prospective contractors
- Keep a written record of the sources of the quotes or proposals received
- Make a written record of the effort made to obtain the quotes or proposals

In one contracting instance, while the district originally solicited competitive price quotes from at least three vendors, subsequent solicitation was sought from only the predecessor vendor. In other instances, the District contracted with the firm based on the District's history with the vendor. In discussion with District staff, actual practice is to either solicit for competitive pricing from vendors known to the District or to contract directly with a vendor who has a positive working history with the District and thus, circumventing fair and competitive contracting practices.

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

In two instances, the General Manager contracted directly with two vendors with which he had a previously working relationship. While the initial hiring of one contractor may qualify as an emergency situation, the continued work does not. Furthermore, the General Manager did not document the nature of the emergency or describe the method used for the selection of the particular contractor. In either instance, these contractors do not meet the requirements as a sole source. Due to the long-term prior working relationship between the General Manager and these two contractors, these contracts appear to have circumvented fair and competitive contracting practices.

Finally, the district made 32 payments to contractors during a time it had no contract in place totaling \$127,046. These payments relate to four of five contracts tested that were paid to the vendor from November 2008 through 2010.

Programs Funded by Outside Sources

The District is not in compliance with OMB Circular A-87 which requires a cost allocation plan be implemented to ensure an equitable allocation of indirect costs to all Federal Awards as it has not created such a plan. See Schedule of Findings and Questioned Costs Finding 2010-02.

Federal Compliance with OMB Circular A-133

The District is not in compliance with OMB Circular A-87 that requires a cost allocation plan to be implemented to ensure an equitable allocation of indirect costs to all Federal Awards. See Schedule of Findings and Questioned Costs Finding 2010-02.

The District is not in compliance with OMB Circular A-133 which requires the audit to be completed and the data collection form and reporting package be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the Federal Cognizant or oversight agency for audit. See Schedule of Findings and Questioned Costs Finding 2010-03.

MOSS-ADAMS LLP**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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. See Schedule of Findings and Questioned Costs Finding 2010-1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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
June 22, 2011

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