



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2011

Clackamas County Service District No. 1

(A Component Unit of Clackamas County, Oregon)



CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal years ended June 30, 2011 and 2010

Prepared by:
WATER ENVIRONMENT SERVICES
Business and Financial Services

Robert Moon, Accounting Supervisor
Natalie M. Van Hook, Senior Accountant
Carla Atwood, Senior Accountant

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)

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CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)

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Introductory Section



CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
GOVERNING BODY UNDER ORS 451.485
BOARD OF COUNTY COMMISSIONERS
CLACKAMAS COUNTY, OREGON
Public Services Building
2051 Kaen Road
Oregon City, Oregon 97045

COMMISSIONERS AS OF JUNE 30, 2011

<u>Name</u>	<u>Term Expires</u>
Charlotte Lehan, Commissioner Public Services Building	December 31, 2012
Jim Bernard, Commissioner Public Services Building	December 31, 2014
Jamie Damon, Commissioner Public Services Building	December 31, 2012
Ann Lininger, Commissioner Public Services Building	December 31, 2012
Paul Savas, Commissioner Public Services Building	December 31, 2014

ADMINISTRATIVE OFFICES

Water Environment Services
Clackamas County, Oregon
150 Beaver Creek Road
Oregon City, Oregon 97045

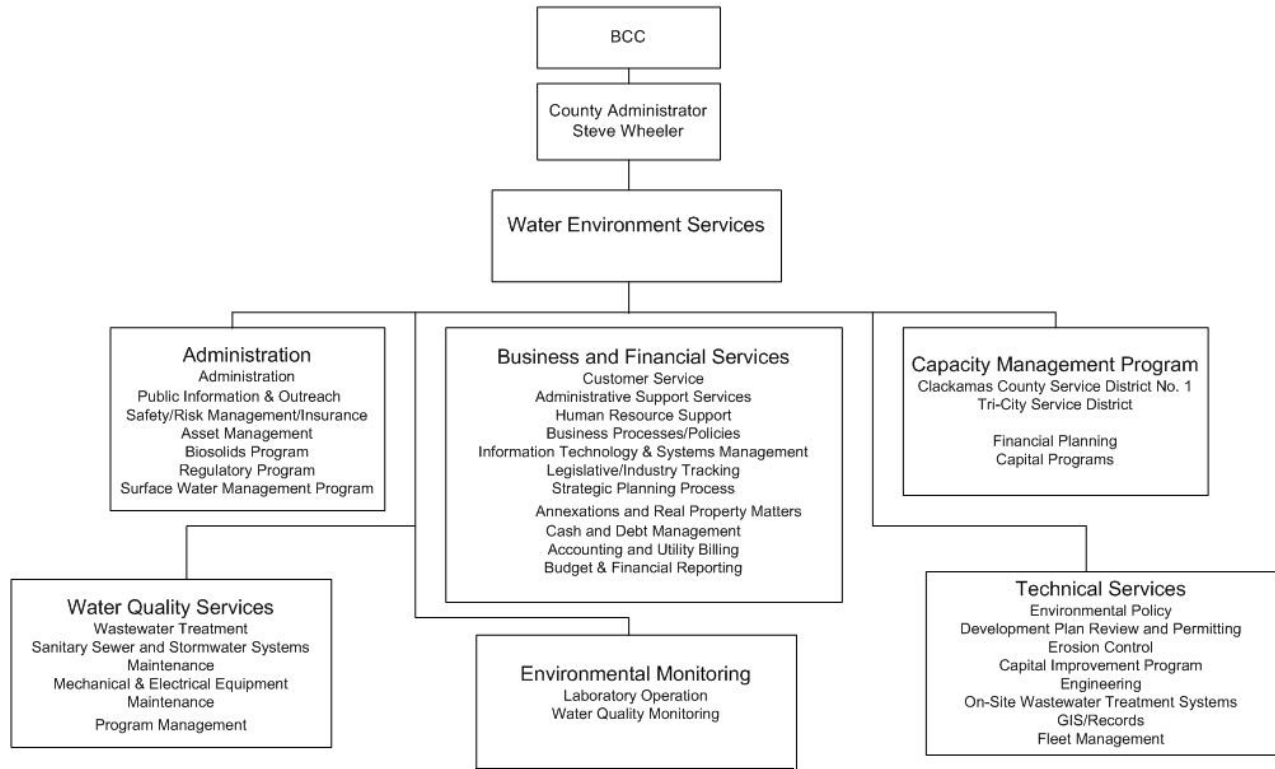
DISTRICT ADMINISTRATOR

Steve Wheeler
2051 Kaen Road
Oregon City, Oregon 97045

REGISTERED AGENT

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

Water Environment Services
A Department of Clackamas June 30, 2011





Water Quality Protection
Surface Water Management
Wastewater Collection & Treatment

Michael S. Kuenzi, P.E.
Director

December 14, 2011

Board of County Commissioners of Clackamas
County, Oregon, as Governing Body of
Clackamas County Service District No. 1
Oregon City, Oregon

The Comprehensive Annual Financial Report for Clackamas County Service District No. 1 (CCSD No. 1 or the District), a component unit of Clackamas County, Oregon, for the year ended June 30, 2011, is submitted herewith. This report was prepared by the Financial Services section of Water Environment Services (the Department), which administers CCSD No. 1, in accordance with the financial reporting provisions of Oregon Revised Statutes Sections 297.405 through 297.555. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentations, including all disclosures, rests with the Department. We believe the data is accurate and complete in all material respects and that it is presented in a manner designed to present fairly the financial position, results of operations and cash flows of the District at June 30, 2011, and for the year then ended.

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

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

Board of County Commissioners of Clackamas
County, Oregon, as Governing Body of
Clackamas County Service District No. 1
Oregon City, Oregon

Water Environment Services

Clackamas County Water Environment Services (WES) was created in August 1984 to administer County service districts formed within Clackamas County, Oregon under the provisions of ORS Chapter 451. This enabling legislation establishes County service districts as independent municipal corporations authorized to provide a specific service within specified boundaries in the County. During FY 2010-11, WES administered Clackamas County Service District No. 1 (sewer and surface water management), Tri-City Service District (sewer), and the Surface Water Management Agency of Clackamas County. Since each of these is a separate municipal corporation, audited financial statements are prepared for each entity.

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

Clackamas County Service District No. 1

Clackamas County Service District No. 1 is comprised of four separate, non-contiguous sewer service areas, as well as a surface water management service area. Both sewer and surface water management services are provided in the North Clackamas Service Area, while sewer service only is provided in the Hoodland, Boring and Fischer's Forest Park Service Areas. Each service area is served by completely separate collection and treatment facilities. As such, each service area constitutes a separate cost center.

Relevant Financial Policies

Relevant financial policies are addressed in Note 1 to the financial statements. In the current year no one policy produced a significant impact on the financial statements.

Board of County Commissioners of Clackamas
County, Oregon, as Governing Body of
Clackamas County Service District No. 1
Oregon City, Oregon

Prospects for the Future

It is anticipated that customer growth will be moderate during the next several years. This expectation is probable since (1) Oregon has in place land use laws that establish an urban growth boundary designed to prevent "urban sprawl" and protect valuable agricultural and forest lands, (2) the boundary for the Portland metropolitan area has for the first time been expanded to include significant additional areas within Clackamas County, (3) continued overall growth in the Portland metropolitan area has significantly diminished easily developable land in other parts of the area, and (4) recent weakness in the housing market has slowed growth. The District has finished construction on a significant portion of additional sanitary sewerage treatment capacity at the Tri-City Service District (TCSD) facility in Oregon City. The District continues to work on additional sanitary sewerage capacity and projects completion in 2012. These projects will serve growth over the next 5 to 10 years.

The District's Kellogg Creek Water Pollution Control Plant is responsible for providing service to the unincorporated portion of North Clackamas County that lies within the Portland region urban growth boundary. As mentioned above, the portion of this boundary that lies within Clackamas County was expanded significantly. This expansion has the potential to more than double the current geographic area served by the District.

Flows from industrial areas in the District have been diverted from the Kellogg facility to TCSD. This diversion was intended as an interim measure to use spare capacity at TCSD to serve growth in North Clackamas until the above-mentioned capacity additions are completed. The terms of this diversion are provided for in the Interim Diversion Agreement adopted by the Board of County Commissioners in February 1999. This interim diversion was a response to capacity constraints at the Kellogg treatment facility.

In 2010, the District initiated a strategic planning effort. This process will continue into 2012. The District is looking at both short and long term financial planning horizons.

Independent Audit

The provisions of Oregon Revised Statutes Sections 297.405 through 297.555, known as "Municipal Audit Law" require that an independent audit of the District's records

Board of County Commissioners of Clackamas
County, Oregon, as Governing Body of
Clackamas County Service District No. 1
Oregon City, Oregon

be made within six months following the close of the fiscal year. The auditors, whose selection was approved by the Board of County Commissioners at the recommendation of District management, have completed their audit of the District's financial statements and have included their report in the financial section of this report.

GFOA Certificate of Achievement for Excellence in Financial Reporting

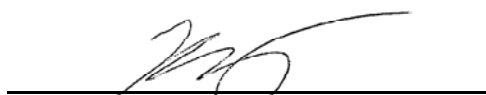
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its Component Unit Financial Report for the year ended June 30, 2010. In order to be awarded a Certificate of Achievement, the District published an easily readable and efficiently organized Comprehensive Annual Financial Report that conforms to program standards. The report satisfies both accounting principles generally accepted in the United State of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe we have met the GFOA's standards for financial reporting for the year ended June 30, 2011, and therefore, the District will again be submitting its current Comprehensive Annual Financial Report to that body for consideration for a Certificate of Achievement. To that end, we will advise the Board of the results of the GFOA's review of our report.

Acknowledgments

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

Respectfully submitted,



Michael Kuenzi, P.E.

Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Clackamas County
Service District No. 1
Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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Financial Section



REPORT OF INDEPENDENT AUDITORS

Board of County Commissioners of
Clackamas County, Oregon, as Governing Body of
Clackamas County Service District No. 1
Oregon City, Oregon

We have audited the accompanying statements of net assets of Clackamas County Service District No. 1 (the District), a component unit of Clackamas County, Oregon, as of June 30, 2011, 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 opinions on these financial statements based on our audit. The financial statements of the District as of June 30, 2010, were audited by other auditors whose report, dated December 22, 2010, expressed an unqualified opinion on those financial statements.

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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2011, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparisons for the Sanitary Sewer Fund, Sanitary Sewer System Development Charge Fund, Sanitary Sewer Construction Fund, Surface Water Fund, Surface Water System Development Charge Fund, Surface Water Construction Fund, Revenue Bond Fund, and State Revolving Loan Debt Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MOSS ADAMS LLP

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 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 the 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. That 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.

The Management's Discussion and Analysis on pages 3 through 9 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
December 14, 2011

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011 and 2010

As management of Clackamas County Service District No. 1 (the District), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Our assets exceeded our liabilities at the close of the fiscal year by \$155,160. Of this amount, \$8,303 (unrestricted net assets) may be used to meet our ongoing obligations of providing sanitary sewage treatment and surface water management services.
- The District's total assets increased to \$289,441 from \$262,385 in 2010 and from \$206,644 in 2009. The change from 2010 included a decrease in cash and cash equivalents of \$2,034, an increase in capital assets of \$23,901, an increase in receivables of \$2,374, a decrease in notes and contracts receivable of \$2,988, an increase in investments of \$6,003, an increase in bond issuance costs of \$345 and a decrease in total assessments receivable of \$152.
- The increase in capital assets is due to an increase in sewerage treatment plant assets. Plant and equipment, net increased by \$93,247. These additions consisted primarily of the Phase 1 Capacity Expansion Project which came on line on May 2, 2011. The Phase 1 assets in 2011 consisted primarily of the Membrane Bioreactor (MBR) treatment facility. These additions were offset by a \$69,185 reduction in Land, easements and construction in progress, and a \$160 reduction in Intangible assets.
- Total liabilities increased \$22,178 from 2010, which in turn had increased \$49,277 from 2009. The 2011 increase was primarily a result of an increase in total long-term liabilities of \$26,201, and an increase of \$476 in accrued interest payable. These increases were offset by a \$1,606 reduction in accounts payable, and a \$2,942 decrease in unearned income.
- Total net assets increased \$4,878. Total operating revenues increased by \$1,592 over 2010 and operating expenses increased by \$47. The result was an increase in operating income of \$1,545. This compares with a \$3,251 increase in operating revenues and a \$1,504 increase in operating expenses in 2010 over 2009. In 2011 expenses in the nonoperating revenue (expense) accounts increased \$4,167, primarily resulting from a decrease in interest income of \$291

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2011 and 2010

Financial Highlights (Continued)

and a \$4,000 expense paid under an Intergovernmental Agreement (IGA) to Tri-City Service District (TCSD) for capacity management expense. In 2010, interest income decreased \$198, and interest expense decreased \$41 from 2009.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. These statements consist of the Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows along with the Notes to Basic Financial Statements. Complementing these statements and notes is Supplementary Information, which provides additional detail about the District's operations.

The Statements of Net Assets present information on all of the District's assets, liabilities, and net assets. Over time, changes in assets, liabilities, and net assets may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Assets present information related to increases and decreases in net total assets. These statements are prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Statements of Cash Flows are an analysis of the change in the District's cash balance during the fiscal year. They are divided into four components; cash from operations, cash from the payment of debt and the acquisition of capital assets, cash advanced or received from non capital activities and cash from investing activities.

The basic financial statements contain information relating to the District's operations. These are centered on the Kellogg Creek Water Pollution Control Plant located in Milwaukie, Oregon and other smaller treatment facilities in Boring, Hoodland and Fischers Forest Park.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the government wide statements. The notes can be found on pages 14 through 30 of this report.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2011 and 2010

Financial Analysis

The financial operations of the District are primarily related to the collection, transmission and treatment of sanitary sewage and surface water management.

The following table offers a comparison of net assets at June 30, 2011, 2010, and 2009:

	<u>Net Assets</u> (In Thousands of Dollars)		
	<u>2011</u>	<u>2010</u> (As Reclassified)	<u>2009</u>
Current assets	\$ 64,150	\$ 58,187	\$ 52,558
Other assets, net	2,149	4,957	1,881
Capital assets, net	<u>223,142</u>	<u>199,241</u>	<u>152,205</u>
Total assets	<u>289,441</u>	<u>262,385</u>	<u>206,644</u>
Current liabilities	20,237	24,260	17,206
Long term liabilities	<u>114,044</u>	<u>87,843</u>	<u>45,620</u>
Total liabilities	<u>134,281</u>	<u>112,103</u>	<u>62,826</u>
Invested in capital assets, net of related debt	138,813	134,964	128,619
Restricted	8,044	6,991	3,973
Unrestricted	<u>8,303</u>	<u>8,327</u>	<u>11,226</u>
Total net assets, end of period	<u>\$ 155,160</u>	<u>\$ 150,282</u>	<u>\$ 143,818</u>

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2011 and 2010

Financial Analysis (Continued)

The following table offers a comparison of revenues, expenses and changes in net assets for the years ended June 30, 2011, 2010, and 2009:

	<u>Changes in Net Assets</u> (In Thousands of Dollars)		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	<u>\$ 23,057</u>	<u>\$ 21,465</u>	<u>\$ 18,214</u>
Operating expenses	<u>19,087</u>	<u>19,040</u>	<u>17,536</u>
Operating income	<u>3,970</u>	<u>2,425</u>	<u>678</u>
Nonoperating revenue (expense)	<u>(4,129)</u>	<u>38</u>	<u>(2,664)</u>
Income (loss) before contributions	<u>(159)</u>	<u>2,463</u>	<u>(1,986)</u>
Contributions	<u>5,037</u>	<u>4,001</u>	<u>5,297</u>
Change in net assets	<u><u>\$ 4,878</u></u>	<u><u>\$ 6,464</u></u>	<u><u>\$ 3,311</u></u>

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2011 and 2010

Financial Analysis (Continued)

Revenues from sanitary sewer and surface water management charges increased by \$1,520 to \$22,188 in 2011. Revenues in 2010 and 2009 were \$20,668 and \$17,244, respectively. The growth is attributable to an increase in the monthly sewer charge of 9%. Revenue from the City of Milwaukie was up \$197, in accordance with an agreement between Milwaukie and the District. Other operating revenues increased \$72. Plan review fees and septic permit inspection fees decreased, however, lien searches and miscellaneous revenue (septic dumping and industrial pretreatment permits) increased. Total operating revenues increased by \$1,592 or 7.4%. Total operating revenues for 2010 had increased \$3,251 or 17.8% over Fiscal Year 2009.

Operating expenses as a whole increased \$47 or 0.2% over 2010, which had increased \$1,504 or 8.6% over 2009. Contracted salaries and benefits increased \$166 in 2011 and \$11 in 2010. This was primarily the result of cost of living increases and rising benefit costs. Professional fees increased \$281, primarily due to an increase in consulting fees for strategic planning. Utility expense was up \$104, due to increased electrical demands of the new MBR facility. Supplies decreased \$460, primarily because the District made a smaller diversion payment to TCSD. Depreciation and amortization was down \$108 in 2011. Although the District added more assets, full year depreciation was not taken on the additions, as they were placed in service during the year. See Note 4 for further details.

In the total nonoperating revenue (expense) accounts, expenses increased by \$4,167. Interest income in 2011 decreased by \$291. A payment was made to TCSD for \$4,000. This payment was in accordance with an IGA signed in 2008 with TCSD, which allowed for the construction of new district assets at the Tri-City facilities. See Note 8 for further details.

Total contributions increased by \$1,035 from \$4,001 in 2010 to \$5,036 in 2011. Sewer connection charges increased by \$2,859. The District had an intergovernmental agreement with Clackamas County Development Agency for payment of system development charges for customers in the North Clackamas Revitalization Area. As of June 30, 2011, this \$3,000 note was paid in full. Capital contributions were down \$1,824. This was primarily due to an American Recovery and Reinvestment Act loan for \$2,000, which was in the financial statements in 2010 and was forgiven in 2011. See Note 6 for further information.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2011 and 2010

Capital Asset and Debt Analysis

The District's capital assets increased \$23,901 or 12% and are detailed in Note 4. A majority of the Phase 1 Capacity Expansion assets came on line in 2011. Plant and equipment increased \$93,247. Construction in Progress was down \$69,254. Intangible assets (software) decreased \$160 due to amortization.

Total long-term liabilities increased by \$26,201 as shown in Notes 6 and 7, primarily as a result of the sale of an additional \$23,710 in revenue obligations. The outstanding balances at June 30, 2011 include \$109,825 in revenue bonds and revenue obligations. In March of 2010 an agreement between the District and PGE was reached for Dispatchable Standby [Power] Generation. The first payment of \$462 made in fiscal year 2009-10 was booked to TCSD in error. An additional payment of \$116 was made in 2010-11. Both payments are now included in the District's financial statements: \$58 as nonoperating revenue, \$58 as current unearned income, and \$462 as long term unearned income. The remainder of the unearned income will be recognized over the next eight years per the Dispatchable Standby agreement.

At June 30, 2011, the District has two outstanding debt issues of revenue bonds to refinance a 1994 issuance and to finance capital improvements through an assessment district in Happy Valley, three outstanding debt issues of revenue obligations to finance capital improvements, a state revolving loan which financed alternative disinfection at the Kellogg treatment facility and two state revolving loans to finance an assessment district in the North Clackamas Revitalization Area.

A portion of the District's revenue bond debt is payable from assessments levied and collected against the benefited property owners first and, if assessment collections and interest earnings are not sufficient, from operating revenues of the District. The balance of the revenue bond and revenue obligation debt and the state revolving loan fund are payable through operating revenues and connection fees. The District continues to maintain favorable bond ratings with Standard and Poor's Corporation, which increased the rating from AA- to AA in February 2009.

Rates and Charges

The District directly serves an estimated population of 91,300 residents, as well as varied industrial, wholesale (cities) and commercial customers. Growth projections within the Service District for the next five years are consistently in the range of zero to three percent per year. Over the long term, this growth will likely continue as the expansion begins into areas that were annexed into the urban growth boundary for the

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2011 and 2010

Rates and Charges (Continued)

Portland metropolitan area. In the short run, due to current economic conditions, growth has been at the low end of the predictions.

While these future customers will increase the District's customer base and hence its operating revenues, they will also buy into the system through the payment of System Development Charges (SDCs). These charges are used for capital construction costs related to capacity expansion necessary for growth. SDCs can also assist in retiring existing revenue bond debt, should it become necessary. The SDC rate in the North Clackamas Sewer Area was increased to \$6,600 from \$5,200 on February 1, 2010.

The monthly retail rate for residential sewer service in all sewer service areas was increased to \$38.00 per equivalent dwelling unit (EDU) for FY 2010-11. It is expected that retail rates will be increased as necessary over the next several years to accommodate the increased operation, maintenance and debt service requirements attendant with the growing needs of the District. However, for fiscal year 2011-12 sewer rates are unchanged. The monthly fee of \$6.00 per equivalent service unit, currently in place to provide for operations, maintenance, and debt service associated with the District's surface water management responsibilities, also remained unchanged.

The District amended its January 17, 2008 Intergovernmental Agreement with the Clackamas County Development Agency, for payment of system development charges for customers in the North Clackamas Revitalization Area. The amended agreement decreased the 2010 unearned income by \$3,000. Total unearned income fell by \$2,942. The \$58 difference is due to the Dispatchable Standby Generation Agreement which was previously discussed under Capital Asset and Debt Analysis.

Economic Factors

Growth in the District was low in 2011. Residential EDUs remained the same as fiscal year 2010. The housing market has remained depressed. Until the housing market recovers, growth in the District will remain low.

Financial Contact

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

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Basic Financial Statements



CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET ASSETS
June 30, 2011 and 2010

	2011	2010 (As Reclassified)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,755,437	\$ 41,317,067
Cash and cash equivalents - restricted	8,829,258	7,301,177
Investments	11,599,178	5,595,878
Unbonded assessments receivable	59,207	59,207
Accrued interest receivable on assessments, net	60,148	53,122
Accounts receivable	5,752,317	3,378,807
Interest receivable	61,418	424,450
Prepaid expenses	32,771	57,198
Total current assets	64,149,734	58,186,906
Noncurrent assets:		
Capital assets:		
Land, easements and construction in progress	19,742,356	88,927,535
Plant and equipment, net	203,078,857	109,832,275
Intangible assets, net	320,419	480,852
Connection charges receivable, noncurrent portion	35,209	47,746
Bond issuance costs	1,264,093	919,300
Bonded assessments receivable, net	287,599	311,949
Notes and contracts receivable	91,921	3,080,046
Unbonded assessments receivable, noncurrent portion	470,816	598,801
Total noncurrent assets	225,291,270	204,198,504
Total assets	289,441,004	262,385,410
LIABILITIES		
Current Liabilities:		
Accounts payable	3,987,064	5,593,368
Accrued payroll payable	493,017	439,507
Other liabilities	-	8,800
Unearned operating income	-	3,000,000
Unearned income	57,800	-
Due to other Service Districts	11,358,312	11,710,834
Accrued interest payable, payable from restricted assets	785,537	309,996
Loan payable, current portion	186,992	179,537
Current portion of long term debt, payable from restricted assets	3,368,410	3,018,405
Total current liabilities	20,237,132	24,260,447
Noncurrent liabilities		
Long term unearned income, net of current portion	462,400	-
Loans payable, net of current portion, payable from current assets	6,427,277	1,374,122
Long term debt, net of current portion, payable from restricted assets	107,154,050	86,468,438
Total noncurrent liabilities	114,043,727	87,842,560
Total liabilities	134,280,859	112,103,007
NET ASSETS		
Invested in capital assets, net of related debt	138,813,606	134,963,988
Restricted for debt service	8,043,721	6,991,181
Unrestricted	8,302,818	8,327,234
TOTAL NET ASSETS	\$ 155,160,145	\$ 150,282,403

See notes to basic financial statements

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Sewer and surface water management charges		
Residential and commercial	\$ 19,726,719	\$ 18,412,534
Municipalities and other	2,461,608	2,255,734
Other operating revenues	868,823	797,053
Total operating revenues	23,057,150	21,465,321
Operating expenses:		
Contracted salaries and benefits	7,240,023	7,074,325
Professional services	2,108,217	1,827,070
Other County services	1,470,097	1,445,135
Supplies	406,502	866,930
Vehicle expenses	404,118	373,022
Repairs and maintenance	197,381	195,426
Utilities	865,569	761,963
Insurance	150,792	161,780
Other expense	459,340	441,535
Depreciation and amortization	5,784,798	5,892,894
Total operating expenses	19,086,837	19,040,080
Operating income	3,970,313	2,425,241
Nonoperating revenue (expense)		
Interest income	360,776	651,411
Interest expense	(272,185)	(314,396)
Federal and state grants	18,000	11,728
Dispatchable power	57,800	-
Loss on disposal of capital assets	(194,380)	(195,230)
Phase 1 capacity management expense	(4,000,000)	-
Amortization of loss on refunding	(74,673)	(85,962)
Amortization of bond issuance costs	(24,374)	(29,960)
Total nonoperating revenue (expense)	(4,129,036)	37,591
Income (loss) before contributions	(158,723)	2,462,832
Contributions:		
Connection charges	4,475,379	1,616,088
Capital contributions	561,086	2,385,296
Total contributions	5,036,465	4,001,384
Change in net assets	4,877,742	6,464,216
Net assets - beginning of year	150,282,403	143,818,187
Net assets - end of year	\$ 155,160,145	\$ 150,282,403

See notes to basic financial statements

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2011 and 2010

	2011	2010 (As Reclassified)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	\$ 17,654,374	\$ 20,726,248
Paid to suppliers for goods and services	(6,182,597)	(2,471,841)
Paid to related entities for services	(8,632,981)	(8,525,255)
Other operating revenues	658,253	716,466
NET CASH FROM OPERATING ACTIVITIES	3,497,049	10,445,618
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Bond principal paid	(3,070,000)	(1,445,000)
Bonds issued	24,061,042	44,850,652
Bond issuance costs	(399,266)	(266,270)
Interest paid on bonds and contracts	203,356	(532,636)
Assessment and contract principal collected	3,160,763	145,530
Interest received on assessments and contracts	(14,629)	(22,233)
Grant revenue	18,000	11,728
Loans receivable	(652,779)	(1,597,774)
Capital contributed by customers/governments	4,638,052	3,578,454
Payments made on note payable	(179,537)	(172,379)
Proceeds from loans	5,240,147	578,266
Proceeds from sale of capital assets	-	2,664
Acquisition of capital assets, net of dispositions	(29,481,733)	(52,704,005)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	3,523,416	(7,573,003)
CASH FLOWS FROM NON CAPITAL ACTIVITIES:		
Dispatchable power agreement	578,000	-
Advances from (payment to) other Service Districts and related entities	(4,352,522)	761,701
NET CASH FROM NON CAPITAL ACTIVITIES	(3,774,522)	761,701
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(13,026,220)	(4,089,694)
Proceeds from sale of investments	7,022,920	13,692,336
Interest received on investments	723,808	371,759
NET CASH FROM INVESTING ACTIVITIES	(5,279,492)	9,974,401
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,033,549)	13,608,717
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	48,618,244	35,009,527
CASH AND CASH EQUIVALENTS, END OF YEAR ⁽¹⁾	\$ 46,584,695	\$ 48,618,244
(1) Cash and cash equivalents are reflected on the Statement of Net Assets as follows:		
Current assets - unrestricted	\$ 37,755,437	\$ 41,317,067
Current assets - restricted	8,829,258	7,301,177
	\$ 46,584,695	\$ 48,618,244

See notes to basic financial statements.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
STATEMENTS OF CASH FLOW, Continued
for the years ended June 30, 2011 and 2010

	2011	2010 (As Reclassified)
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating Income	\$ 3,970,312	\$ 2,425,241
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	5,784,798	5,892,894
Changes in assets and liabilities:		
Other receivables	(1,720,894)	281,652
Prepaid expenses	24,427	(2,519)
Accounts payable	(1,606,304)	2,149,604
Accrued payroll payable	53,510	20,218
Other liabilities	(8,800)	8,800
Unearned income	(3,000,000)	(330,272)
Total adjustments	(473,263)	8,020,377
NET CASH FROM OPERATING ACTIVITIES	\$ 3,497,049	\$ 10,445,618
NONCASH CAPITAL ACTIVITY		
Contributions of capital assets from governments, developers and customers	\$ 398,413	\$ 422,929
Capital asset acquisitions financed with loan	-	578,266
Contract receivable	-	3,000,000

See notes to basic financial statements.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District

Clackamas County Service District No. 1 (the District) was organized in March 1967 under the provisions of ORS Chapter 451 to construct and operate a sanitary sewer system in a particular area of Clackamas County, Oregon. As provided by ORS 451.485, the Clackamas County Board of Commissioners is the governing body of the District.

The District has no potential component units. Since Clackamas County, Oregon is financially accountable for, and significantly influences the operations of, the District and the Clackamas County Board of County Commissioners also serves as the District's Board, the District is included as a blended component unit in the Comprehensive Annual Financial Report of Clackamas County, Oregon for the year ended June 30, 2011.

Fiscal and accounting functions and certain repairs and maintenance of capital assets are provided by personnel of Clackamas County Water Environment Services, Department of Transportation and Development, County Treasurer and the County's General Services Agency.

The District's personal services are budgeted as part of Clackamas County (County) and are contracted for with the County.

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

Measurement Focus

The basic financial statements are prepared on the flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included in the Statements of Net Assets. The Statements of Revenues, Expenses and Changes in Net Assets present increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Basis of Accounting

The District's financial statements are prepared on the accrual basis of accounting. The District has applied all private sector guidance issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting, Continued

Accounting Standards Board (GASB) pronouncements. The District has elected not to follow subsequent private sector guidance.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations, primarily wastewater treatment and surface water management services. Operating expenses include the cost of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenue and expense. Contributions represent capital assets contributed by governments and developers, and connection fees.

Cash and Cash Equivalents

Cash and cash equivalents comprise funds held and invested by the Clackamas County Treasurer and the State of Oregon Treasurer's Local Government Investment Pool (LGIP). Financial information required by Governmental Accounting Standards Board Statements regarding the accounting and financial reporting for the District's pooled cash and investments, held by the Clackamas County Treasurer, has been disclosed in the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. For purposes of the Statements of Cash Flows, cash and cash equivalents include all cash and investments held by the Clackamas County Treasurer and LGIP, since they have the general characteristics of a demand deposit account.

Investments in the State of Oregon Treasurer's Local Government Investment Pool are stated at cost which approximates fair value.

The LGIP is administered by the Oregon State Treasurer. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the state that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local government in Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which is not registered with the US Securities and Exchange Commission as an investment company. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments with a remaining maturity of more than three months, at the time of purchase, are stated at cost which approximates fair value. Fair value is determined at the quoted market price.

Sewer User Charges Receivable

Sewer user charges, included as accounts receivable in the Statements of Net Assets, are due from property owners within the District. An allowance for doubtful accounts is not deemed necessary as uncollectible accounts become a lien on the property.

Assessments Receivable

Assessments receivable represent the uncollected amounts levied against benefited property for the cost of local improvements. The assessments represent liens against benefited property and are generally payable over a period of twenty years at interest rates ranging from 6.5% to 12.09%. The District has determined the collectability of a portion of assessments receivable and accrued interest thereon as doubtful and has established an allowance. The balance of the allowance at June 30, 2011 and 2010 is \$586,224, of which \$212,280 is accrued interest. Assessments receivable arise from both bonded and unbonded sources. Bonded assessments were funded through revenue bond sales. Unbonded assessments were funded from the District's operations.

Restricted Assets and Related Liabilities

Assets, whose use is restricted to specific purposes by state statute or bond indenture, and related liabilities are segregated on the Statements of Net Assets.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated fair market value at the time of donation in the case of contributed sewer pipe installation from developers. The District defines capital assets as assets with an initial cost of more than \$5,000 and an estimated life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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

Sewage treatment plant	20-50 years
Sewage treatment line system	20-50 years
Equipment	10-15 years

Intangible Assets

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

Capitalized Interest

Interest costs are capitalized as part of the costs of capital assets during the period of construction based on the related weighted average net borrowing costs incurred. Interest earned on temporary investments acquired with the proceeds of such borrowed funds from the date of the borrowing until the assets are ready for their intended use is used to reduce the interest costs capitalized on the constructed assets. Interest is not capitalized for acquisitions funded by capital grants (or other outside parties) externally restricted for the acquisition of specified assets. Interest in the amount of \$3,729,118 and \$2,514,562 was capitalized for 2011 and 2010, respectively.

Bonds

Bond issuance costs, premiums, discounts and loss on refunding are amortized over the life of the bonds.

Net Assets

Net assets comprise the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net assets are classified in the following three components: Invested in capital assets, net of related debt; Restricted for debt service; and Unrestricted net assets. Invested in capital assets, net of related debt consists of all capital assets and intangibles, net of accumulated depreciation and amortization and reduced by outstanding debt (revenue bonds and other debt obligations) that is attributable to the acquisition, construction and improvement of those

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including legal mandates. Unrestricted consists of all other net assets not included in the above categories. Amounts in these categories have been reclassified for the period ended June 30, 2010.

Due to Other Service Districts

The District functions as a depository for funds owned by Surface Water Management Agency of Clackamas County and Tri-City Service District. Interest earnings are allocated to those Districts based on the proportion of their funds to total District funds.

Budget

The District is required by state law to budget its operations on a fund basis. The budget is generally prepared on the modified accrual basis of accounting. The resolution authorizing appropriations for the District's funds sets the level by which expenditures cannot legally exceed appropriations. Appropriations are made at the principal object level - materials and services, reserve for capital improvement, capital outlay, debt service, transfers, contingency and other – which are the levels of control established by the resolution. The detail budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories. Management may make transfers of appropriations within object levels. However, transfers of appropriations among object levels require approval by the Board. Unexpected additional resources may be added to the budget through the use of a supplemental budget. The Board, at a regular Board meeting, may adopt a supplemental budget less than 10% of the fund's original budget. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publications in newspapers and approval by the Board. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control and require approval by the Board. During the fiscal year the District made appropriation transfers from contingency to materials and services in the Sanitary Sewer Fund in the amount of \$400,000. Appropriations lapse as of year-end.

Risk Management

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

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management, Continued

The District participates in the County's self-insurance program where not commercially insured. All personnel of the District are contracted from the County and the County bears all risk of loss. The County is fully self-insured for unemployment benefits and short-term disability benefits and partially insured for dental benefits and workers' compensation. The County carries coverage in excess of \$1,000,000 with an outside insurer for workers' compensation claims. There have been no significant reductions in insurance coverage from the prior year for any category of risk and settled claims have not reached the level of commercial coverage in any of the past three fiscal years.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and investments are comprised of the following:

	2011	2010
Petty Cash	\$ 1,650	\$ 1,100
State of Oregon Treasurer's Local Government Investment Pool	18,266,217	24,607,506
Deposits with County Treasurer	28,316,828	24,009,638
	<u>\$ 46,584,695</u>	<u>\$ 48,618,244</u>
Investments with the County Treasurer	<u>\$ 11,599,178</u>	<u>\$ 5,595,878</u>

Cash and investments are held by the County Treasurer and represent the District's equity in pooled accounts maintained by the County Treasurer. State statutes authorize the District to invest in general obligations of the U.S. Government and in its agencies, certain bonded obligations of Oregon municipalities, certain corporate indebtedness, bank repurchase agreements, bankers' acceptances and the State of Oregon Treasurer's Local Government Investment Pool (LGIP) among others. Reference should be made to the June 30, 2011 Clackamas County Comprehensive Annual Financial Report for compliance with these statutes.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Interest Rate Risk

As a means to limit exposure to fair value loss arising from interest rates, the County's investment policy requires structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, investing operating funds primarily in shorter-term securities or short-term investment pools, and by diversifying the portfolio by maturity dates to mitigate the impact of reinvestment risk. Reference should be made to the June 30, 2011 Clackamas County Comprehensive Annual Financial Report for actual maturities of the County's investments. Investment maturity limitations and policy for the County's investments are as follows:

<u>Maturity</u>	<u>Policy</u>
Less than 90 days	Minimum of 25%
Less than 12 months	No limit
12 months to 24 months	Maximum of 40%
24 months to 36 months	Maximum of 30%

Credit Risk

Oregon Revised Statutes limit the types of investments that the District may have. The District is in compliance with these statutes at June 30, 2011. The District is also in compliance with the County's investment policy, which requires the County to limit exposure to credit risk, concentrating its investments in the safest types of securities, diversifying the investment portfolio so that potential losses on individual securities will be minimized, actively monitoring the investment portfolio holdings for ratings changes, changing economic or market conditions, and pre-qualifying the financial institutions with which the County will do business.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a national statistical rating organization.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

3. ACCOUNTS RECEIVABLE

	<u>2011</u>	<u>2010</u>
Current connection charges receivable, including interest of \$2,323 and \$5,639 at June 30, 2011 and 2010, respectively	\$ 13,887	\$ 21,653
Sewerage user charges	2,856,856	1,322,903
Interest receivable on unbonded assessments	254,907	247,304
Grant receivable	18,000	1,639,019
Loan receivable	2,273,798	-
Clackamas County	4,606	28,235
Miscellaneous	330,263	119,693
	<u>\$ 5,752,317</u>	<u>\$ 3,378,807</u>

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets not being depreciated:					
Land	\$ 3,250,709	\$ -	\$ 68,758	\$ -	\$ 3,319,467
Construction in progress	85,676,827	29,481,733	(98,541,291)	(194,380)	16,422,889
Total capital assets not being depreciated	<u>88,927,536</u>	<u>29,481,733</u>	<u>(98,472,533)</u>	<u>(194,380)</u>	<u>19,742,356</u>
Capital assets being depreciated and amortized:					
Intangibles	802,162	-	-	-	802,162
Sewerage treatment plant	69,180,632	166,514	93,501,981	-	162,849,127
Sewerage treatment line system	101,204,317	231,900	4,607,499	-	106,043,716
Equipment	8,809,142	-	363,053	-	9,172,195
Total capital assets being depreciated and amortized	<u>179,996,253</u>	<u>398,414</u>	<u>98,472,533</u>	<u>-</u>	<u>278,867,200</u>
Less accumulated depreciation and amortization for:					
Intangibles	(321,310)	(160,432)	-	-	(481,742)
Sewerage treatment plant	(33,907,727)	(3,087,792)	-	-	(36,995,519)
Sewerage treatment line system	(28,354,072)	(2,288,907)	-	-	(30,642,979)
Equipment	(7,100,017)	(247,667)	-	-	(7,347,684)
Total accumulated depreciation and amortization	<u>(69,683,126)</u>	<u>(5,784,798)</u>	<u>-</u>	<u>-</u>	<u>(75,467,924)</u>
Total capital assets being depreciated and amortized, net	<u>110,313,127</u>	<u>(5,386,384)</u>	<u>98,472,533</u>	<u>-</u>	<u>203,399,276</u>
Total capital assets, net	<u>\$ 199,240,663</u>	<u>\$ 24,095,349</u>	<u>\$ -</u>	<u>\$ (194,380)</u>	<u>\$ 223,141,632</u>

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

4. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets not being depreciated:					
Land	\$ 3,250,709	\$ -	\$ -	\$ -	\$ 3,250,709
Construction in progress	34,074,852	52,704,005	(904,136)	(197,894)	85,676,827
Total capital assets not being depreciated	<u>37,325,561</u>	<u>52,704,005</u>	<u>(904,136)</u>	<u>(197,894)</u>	<u>88,927,536</u>
Capital assets being depreciated and amortized:					
Intangibles	802,162	-	-	-	802,162
Sewerage treatment plant	68,882,510	172,766	125,356	-	69,180,632
Sewerage treatment line system	100,185,535	250,163	768,619	-	101,204,317
Equipment	8,858,935	-	10,161	(59,954)	8,809,142
Total capital assets being depreciated and amortized	<u>178,729,142</u>	<u>422,929</u>	<u>904,136</u>	<u>(59,954)</u>	<u>179,996,253</u>
Less accumulated depreciation and amortization for:					
Intangibles	(160,878)	(160,432)	-	-	(321,310)
Sewerage treatment plant	(30,694,031)	(3,213,696)	-	-	(33,907,727)
Sewerage treatment line system	(26,082,573)	(2,271,499)	-	-	(28,354,072)
Equipment	(6,912,704)	(247,267)	-	59,954	(7,100,017)
Total accumulated depreciation and amortization	<u>(63,850,186)</u>	<u>(5,892,894)</u>	<u>-</u>	<u>59,954</u>	<u>(69,683,126)</u>
Total capital assets being depreciated and amortized, net	<u>114,878,956</u>	<u>(5,469,965)</u>	<u>904,136</u>	<u>-</u>	<u>110,313,127</u>
Total capital assets, net	<u>\$ 152,204,517</u>	<u>\$ 47,234,040</u>	<u>\$ -</u>	<u>\$ (197,894)</u>	<u>\$ 199,240,663</u>

On May 2, 2011 the Phase 1 Capacity Expansion Project brought on line \$93,004,000 of capital assets, consisting primarily of the Membrane Bioreactor (MBR) treatment facility. This facility is located at the Tri-City Service District (TCSD) location, and expands the District's capacity to treat sewage for existing customers and potential growth. See Note 8 for information on the IGA between the District and TCSD, which allowed for the development of the MBR facility.

5. NOTE RECEIVABLE

The District had an intergovernmental agreement and note receivable with the Clackamas County Development Agency for payment of system development charges for customers in the North Clackamas Revitalization Area. This note, in the amount of \$3,000,000, was included as unearned income in the District's 2010 financial statements. As of June 30, 2011 the note was paid in full.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

6. LOANS PAYABLE

Amounts represent obligations for state revolving loans from the Department of Environmental Quality (DEQ), which were used for the construction of capital assets and are payable in annual and semi-annual installments. The original amount of Loan R22401 was \$2,914,744.

In July of 2009, the District was awarded \$4,000,000 from the 2009 American Recovery and Reinvestment Act to finance construction of collector sewers in the North Clackamas Revitalization Area. These funds are administered by the Oregon DEQ. Of the \$4,000,000, \$2,000,000 is in the form of a loan which will be forgiven, and the other \$2,000,000 is loan proceeds. Disbursements of loan proceeds by DEQ are made following submission of eligible invoices by the District. Loan payments are payable in semi-annual installments of principal and interest over 20 years, with a stated interest rate of 0%. Payments commence following completion of the District's construction project, which is estimated to occur in 2012. As of June 30, 2011, the District had submitted reimbursement requests to DEQ in the amount of \$4,000,000. Of this amount, \$2,000,000 was reported as capital contributions in the prior year, and \$2,000,000 is reported as loan proceeds.

In October of 2010, the District amended the \$5,000,000 Oregon Department of Environmental Quality loan that was received in April of 2010. The total amount of this loan is now \$5,350,000 to continue financing construction of collector sewers in the North Clackamas Revitalization Area. Disbursements of loan proceeds by the DEQ are made following submission of eligible invoices by the District. As of June 30, 2011, the District had submitted \$3,818,413 in reimbursable expenses. Loan proceeds in the amount of \$1,544,613 have been received, and the balance is included in accounts receivable. Loan payments are payable in semi-annual installments of principal and interest over 20 years and commence following completion of the District's construction project, which is estimated to occur in 2012.

These loans contain certain financial covenants. As of June 30, 2011 and 2010, the District was in compliance with these covenants.

Changes in loans payable for the year ended June 30, 2011 are as follows:

	Interest Rates	Outstanding July 1, 2010	Increases	Decreases	Outstanding June 30, 2011
Revolving Loan R22401	4.11%	\$ 975,393	\$ -	\$ (179,537)	\$ 795,856
Revolving Loan R06224	0.00%	578,266	1,421,734	-	2,000,000
Revolving Loan R22403	2.77%	-	3,818,413	-	3,818,413
		<u>\$ 1,553,659</u>	<u>\$ 5,240,147</u>	<u>\$ (179,537)</u>	<u>\$ 6,614,269</u>

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

6. LOANS PAYABLE (Continued)

Changes in loans payable for the year ended June 30, 2010 are as follows:

	Interest Rates	Outstanding July 1, 2009	Increases	Decreases	Outstanding June 30, 2010
Revolving Loan R22401	4.11%	\$ 1,147,772	\$ -	\$ (172,379)	\$ 975,393
Revolving Loan R06224	0.00%	-	578,266	-	578,266
		<u>\$ 1,147,772</u>	<u>\$ 578,266</u>	<u>\$ (172,379)</u>	<u>\$ 1,553,659</u>

Future maturities are as follows:

Year	Principal	Interest	Admin. Fees	Total
2012	\$ 186,992	\$ 30,808	\$ 3,516	\$ 221,316
2013	194,756	23,044	2,562	220,362
2014	202,843	14,956	1,569	219,368
2015	211,265	6,534	534	218,333
Undetermined	5,818,413	-	-	5,818,413
	<u>\$ 6,614,269</u>	<u>\$ 75,342</u>	<u>\$ 8,181</u>	<u>\$ 6,697,792</u>

In October of 2010, the District terminated its \$10,000,000 line of credit with US Bank.

7. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2011, are as follows:

	Interest Rates	Outstanding July 1, 2010	Increases	Decreases	Outstanding June 30, 2011
Revenue Bonds - 2002A	3.000% - 4.875%	\$ 1,815,000	\$ -	\$ (140,000)	\$ 1,675,000
Revenue Bonds - 2002B	2.000% - 3.650%	4,955,000	-	(925,000)	4,030,000
Revenue Obligations - 2009A	2.000% - 4.700%	38,050,000	-	(910,000)	37,140,000
Revenue Obligations - 2009B	2.250% - 5.000%	44,365,000	-	(1,095,000)	43,270,000
Revenue Obligations - 2010	2.000% - 4.625%	-	23,710,000	-	23,710,000
		<u>89,185,000</u>	<u>23,710,000</u>	<u>(3,070,000)</u>	<u>109,825,000</u>
Premium - 2009A		86,431	-	(3,652)	82,779
Premium - 2009B		477,558	-	(19,426)	458,132
Premium - 2010		-	351,042	(7,021)	344,021
Less deferred amount on refunding - 2002B		<u>(262,146)</u>	<u>74,674</u>	<u>-</u>	<u>(187,472)</u>
		<u>\$ 89,486,843</u>	<u>\$ 24,135,716</u>	<u>\$ (3,100,099)</u>	<u>\$ 110,522,460</u>

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

7. LONG-TERM DEBT (Continued)

Changes in long-term debt for the year ended June 30, 2010, are as follows:

	Interest Rates	Outstanding July 1, 2009	Increases	Decreases	Outstanding June 30, 2010
Revenue Bonds - 2002A	3.000% - 4.875%	\$ 1,955,000	\$ -	\$ (140,000)	\$ 1,815,000
Revenue Bonds - 2002B	2.000% - 3.650%	5,850,000	-	(895,000)	4,955,000
Revenue Obligations - 2009A	2.000% - 4.700%	38,460,000	-	(410,000)	38,050,000
Revenue Obligations - 2009B	2.250% - 5.000%	-	44,365,000	-	44,365,000
		<u>46,265,000</u>	<u>44,365,000</u>	<u>(1,445,000)</u>	<u>89,185,000</u>
Premium - 2009A		90,083	-	(3,652)	86,431
Premium - 2009B		-	485,652	(8,094)	477,558
Less deferred amount on refunding - 2002B		<u>(348,108)</u>	<u>85,962</u>	<u>-</u>	<u>(262,146)</u>
		<u>\$ 46,006,975</u>	<u>\$ 44,936,614</u>	<u>\$ (1,456,746)</u>	<u>\$ 89,486,843</u>

Current and future maturities at June 30 are summarized as follows:

	2011	2010
Current maturities - face value	\$ 3,395,000	\$ 3,070,000
Premium	37,119	23,078
Less deferred amount in refunding	(63,709)	(74,673)
	<u>\$ 3,368,410</u>	<u>\$ 3,018,405</u>
Future maturities - face value	\$ 106,430,000	\$ 86,115,000
Premium	847,813	540,911
Less deferred amount in refunding	(123,763)	(187,473)
	<u>\$ 107,154,050</u>	<u>\$ 86,468,438</u>

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

7. LONG-TERM DEBT (Continued)

Revenue Bonds 2002A and 2002B

Revenue bonds are payable from monthly sewer and surface water user fees collected from customers connected to and benefited by the systems. The original amount was \$15,698,000 and was used to finance capital improvements and capital improvements through an assessment district.

Maturities of bond principal and interest, as refunded, at June 30, 2011 are as follows:

Fiscal Year	Principal	Interest
2012	\$ 1,095,000	\$ 198,366
2013	1,130,000	159,605
2014	1,165,000	118,506
2015	1,200,000	74,983
2016	135,000	49,589
2017-2021	700,000	151,778
2022-2023	280,000	13,650
	5,705,000	\$ 766,477
Less deferred amount in refunding	(187,473)	
	\$ 5,517,527	

Under the revenue bond agreements, the District has agreed to covenants that it will charge user rates and fees in connection with the operation of the sewer system which are adequate to cover annual debt service as required by the bond agreements. The District was in compliance with these covenants during the years ended June 30, 2011 and 2010.

In prior years, the District defeased revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2011, \$4,015,000 of bonds outstanding is considered defeased.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,051,754 (net of \$133,246 of issuance costs). This difference, reported in the accompanying basic financial statements as a deferred

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

7. LONG-TERM DEBT (Continued)

charge on refunding, will be amortized through 2015 on the effective interest method. The District completed the advance refunding to reduce its total debt service payments over the next 20 years by \$712,249 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$616,241.

Revenue Obligations 2009A, 2009B and 2010

Revenue obligations are payable from monthly sewer fees collected from customers connected to and benefited by the system. The original amount of the 2009A issuance was \$38,460,000, the 2009B issuance was \$44,365,000 and the 2010 issuance was \$23,710,000. These issuances were all used to finance capital improvements.

Maturities of 2009A bond principal at June 30, 2011 are as follows:

Fiscal Year	Principal	Interest
2012	\$ 935,000	\$ 1,477,793
2013	965,000	1,453,968
2014	995,000	1,429,543
2015	1,030,000	1,404,143
2016	1,070,000	1,372,643
2017-2021	6,080,000	6,330,613
2022-2026	7,815,000	5,050,119
2027-2031	10,370,000	3,079,580
2032-2034	7,880,000	561,242
	<u>\$ 37,140,000</u>	<u>\$ 22,159,644</u>

Maturities of 2009B bond principal at June 30, 2011 are as follows:

Fiscal Year	Principal	Interest
2012	\$ 1,130,000	\$ 1,751,800
2013	1,160,000	1,717,450
2014	1,200,000	1,670,050
2015	1,235,000	1,609,175
2016	1,270,000	1,564,013
2017-2021	7,090,000	7,061,225
2022-2026	8,685,000	5,491,725
2027-2031	10,830,000	3,538,588
2032-2035	10,670,000	985,774
	<u>\$ 43,270,000</u>	<u>\$ 25,389,800</u>

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

7. LONG-TERM DEBT (Continued)

Revenue Obligations 2009A, 2009B and 2010 (Continued)

Maturities of 2010 bond principal at June 30, 2011 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 235,000	\$ 1,327,326
2013	650,000	911,119
2014	665,000	897,968
2015	680,000	884,519
2016	765,000	870,069
2017-2021	4,025,000	3,978,694
2022-2026	4,855,000	3,122,194
2027-2031	5,460,000	2,052,850
2032-2035	6,375,000	785,384
	<u>\$ 23,710,000</u>	<u>\$ 14,830,123</u>

Under the revenue obligation agreements, the District has agreed to covenants that it will charge user rates and fees in connection with the operation of the sewer system, which are adequate to cover annual debt service as required by the bond agreements. The District was in compliance with these covenants during the years ended June 30, 2011 and 2010.

8. RELATED PARTY TRANSACTIONS

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

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

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

8. RELATED PARTY TRANSACTIONS (Continued)

The District allocated certain joint costs totaling approximately \$2,664,000 and \$2,671,000 in 2011 and 2010, respectively, to other County Service Districts.

During fiscal years 2011 and 2010, fiscal and accounting functions and certain repairs and maintenance on plant and equipment were performed by personnel of various Clackamas County departments, including Water Environment Services, Department of Transportation and Development, and County Treasurer. Operating expenses in the Statements of Revenues, Expenses and Changes in Net Assets for 2011 and 2010, charged by the above departments, totaled approximately \$8,710,000 and \$8,519,000 respectively.

At June 30, related party balances consist of:

	Receivable		Payable	
	2011	2010	2011	2010
Clackamas County	\$ 8,979 **	\$ 28,235	\$ 205,278 *	\$ 207,073 *
Clackamas County Development Agency	-	3,367,808	-	-
Clackamas County -				
Accrued payroll payable	-	-	493,017	439,507
Subtotal	8,979	3,396,043	698,295	646,580
Tri-City Service District	-	-	11,170,900	11,479,010
Surface Water Management				
Agency of Clackamas County	-	-	187,412	231,824
Subtotal	-	-	11,358,312	11,710,834
Total	\$ 8,979	\$ 3,396,043	\$ 12,056,607	\$ 12,357,414

* Amounts included in accounts payable on the Statements of Net Assets.

**Amounts included in accounts receivable, interest receivable and contracts receivable on the Statements of Net Assets.

The District and TCSD entered into an Intergovernmental Agreement (IGA) as of December 18, 2008. Per the terms of this IGA, the District paid TCSD \$4,000,000 in 2011 as a one-time payment for the use of the existing capital infrastructure of the Tri-City Treatment Plant and as compensation for the opportunity to lease land and attach the Phase 1 Capacity to existing TCSD infrastructure. The date for payment was set as the Phase 1 start date. Phase 1 began operations May 2, 2011, and the District made the \$4,000,000 payment in June of 2011.

On May 12, 2011, the Districts amended the 2008 IGA to address the future sharing of operations and maintenance expenses that arise from the joint operation of the Districts' assets at the Tri-City Plant.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS Continued
June 30, 2011 and 2010

8. RELATED PARTY TRANSACTIONS (Continued)

On January 6, 2011, the District entered into an IGA with Tri-City Service District for treatment of biosolids. Per the terms of this IGA, Clackamas County Service District No. 1 paid Tri-City Service District \$155,455 in 2010-11 for biosolids treatment services.

9. COMMITMENTS

The District has commitments under contractual agreements for various multi-year contracts amounting to approximately \$17,957,000. The largest of these commitments is to finish the Phase 1 Capacity Expansion project. In fiscal year 2011-12 this will entail some finish work on the Membrane Bioreactor (MBR) waste treatment facility, and the completion of the Intertie 2 pipeline project.

10. LITIGATION

The District has various claims and pending legal proceedings outstanding. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by the District. In the opinion of management, the ultimate disposition of such proceedings is not expected to have a material adverse effect on the District.

11. SUBSEQUENT EVENTS

On August 4, 2011, the District entered into an Intergovernmental Agreement with the City of Portland to share in the cost of construction of a sanitary sewer line in the North Clackamas Revitalization Area. The City's share of construction costs paid by the District is approximately \$227,000. The District's share of construction costs incurred by the City has not been finalized, but is anticipated to be approximately \$250,000.

On September 29, 2011, the District again amended its April 12, 2010 Clean Water Revolving Fund Loan Agreement with the Oregon Department of Environmental Quality and increased the loan amount to \$8,800,100.

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Supplementary Information



CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
DESCRIPTION OF BUDGETARY FUNDS

Basis of Accounting

For financial reporting and operating purposes, management considers the District's activities as those of a unitary enterprise operation and, as such, those activities are reported in a single enterprise fund in the preceding section of this report. However, for budgetary and legal purposes those activities are accounted for in the funds described below. Schedules for these funds, prepared on a budgetary basis, generally on the accrual basis of accounting, are shown on the following pages. As of July 1, 2010, the District changed the method of accounting for revenue from cash to the accrual basis. Due to this change in the method of accounting, amounts recorded as receivables in the basic financial statements in the prior year have been recognized in the current year budgetary funds as a restatement of beginning fund balance.

Fund Descriptions

Sanitary Sewer and Surface Water Funds

The Sanitary Sewer and Surface Water Funds account for all activities not accounted for by the District's other funds, primarily sewerage and surface water operations. Primary resources are monthly service charges and interest earnings.

System Development Charge Funds

The Sanitary Sewer and Surface Water System Development Charge (SDC) Funds account for capital expenditures that are related to growth or capacity increases. The primary resources are connection fees.

Construction Funds

The Sanitary Sewer and Surface Water Construction Funds account for non-SDC capital expenditures. The primary resources are transfers from other funds, interest earnings and bond proceeds.

Revenue Bond Fund

The Revenue Bond Fund accounts for redemption of revenue bonds and interest thereon. The primary resource is sewer user and surface water management monthly fees transferred from other funds.

State Revolving Loan Debt Service Fund

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

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
SANITARY SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)

	2011			Variance with Final Budget Positive (Negative)	2010 Actual
	Original Budget	Final Budget	Actual		
REVENUES:					
Monthly service charges	\$ 15,884,440	\$ 15,884,440	\$ 16,054,063	\$ 169,623	\$ 14,758,762
Operation payments by cities	2,448,120	2,448,120	2,461,608	13,488	2,213,101
Grants	-	-	-	-	5,728
Assessments collected (including interest of \$46,854 in 2011 and \$55,176 in 2010)	75,000	75,000	46,854	(28,146)	55,176
Sewer hookup fees	150,000	150,000	1,907	(148,093)	-
Sewer hookup contract payment (including interest of \$1,914 in 2011 and \$2,125 in 2010)	-	-	1,914	1,914	2,125
Special connection charges	-	-	218,914	218,914	161,667
Interest on investments	31,449	31,449	41,318	9,869	2,890
Miscellaneous	715,600	715,600	806,745	91,145	650,166
Total revenues	19,304,609	19,304,609	19,633,323	328,714	17,849,615
BEGINNING FUND BALANCE as previously reported	6,289,841	6,289,841	6,967,542	677,701	4,479,809
RESTATEMENT *	-	-	-	-	2,487,733
BEGINNING FUND BALANCE AVAILABLE FOR APPROPRIATION AS RESTATED	6,289,841	6,289,841	6,967,542	677,701	6,967,542
	\$ 25,594,450	\$ 25,594,450	\$ 26,600,865	\$ 1,006,415	\$ 24,817,157

* Beginning Fund Balance was restated to reflect change to the accrual basis.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
SANITARY SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL, Continued
for the year ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)

	2011				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2010 Actual
EXPENDITURES:					
Materials and services	\$ 11,039,366	\$ 11,439,366	\$ 10,162,392	\$ 1,276,974	\$ 10,466,881
Capital outlay	-	-	-	-	647,097
Contingency	1,103,937	703,937	-	703,937	-
Total expenditures	<u>12,143,303</u>	<u>12,143,303</u>	<u>10,162,392</u>	<u>1,980,911</u>	<u>11,113,978</u>
OTHER FINANCING USES:					
Transfers to other funds:					
Revenue Bond Fund	7,402,695	7,402,695	5,988,261	1,414,434	3,921,888
State Revolving Loan Debt Service Fund	222,300	222,300	222,300	-	223,000
Sanitary Sewer Construction Fund	<u>4,600,000</u>	<u>4,600,000</u>	<u>4,600,000</u>	<u>-</u>	<u>2,000,000</u>
Total other financing uses	<u>12,224,995</u>	<u>12,224,995</u>	<u>10,810,561</u>	<u>1,414,434</u>	<u>6,144,888</u>
Total expenditures and other financing uses	24,368,298	24,368,298	<u>\$ 20,972,953</u>	<u>\$ 3,395,345</u>	<u>\$ 17,258,866</u>
UNAPPROPRIATED ENDING FUND BALANCE					
	<u>1,226,152</u>	<u>1,226,152</u>			
	<u>\$ 25,594,450</u>	<u>\$ 25,594,450</u>			

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
SANITARY SEWER CONSTRUCTION FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)

	2011			2010 Actual
	Original And Final Budget	Actual	Variance with Final Budget Positive (Negative)	
REVENUES:				
Interest on investments	\$ 66,135	\$ 111,418	\$ 45,283	\$ 190,700
Capital project participation and other	-	163,593	163,593	80
Total revenues	<u>66,135</u>	<u>275,011</u>	<u>208,876</u>	<u>190,780</u>
OTHER FINANCING SOURCES:				
Bond proceeds	28,288,663	23,387,196	(4,901,467)	44,188,172
Premium	-	351,042	351,042	485,652
Loan proceeds / grant	5,350,000	5,240,147	(109,853)	2,000,000
Transfer from Sanitary Sewer Fund	4,600,000	4,600,000	-	2,000,000
Total other financing sources	<u>38,238,663</u>	<u>33,578,385</u>	<u>(4,660,278)</u>	<u>48,673,824</u>
Total revenues and other financing sources	<u>38,304,798</u>	<u>33,853,396</u>	<u>(4,451,402)</u>	<u>48,864,604</u>
BEGINNING FUND BALANCE as previously reported	13,226,949	14,869,989	1,643,040	14,819,032
RESTATEMENT *	-	-	-	50,957
BEGINNING FUND BALANCE AVAILABLE FOR APPROPRIATION AS RESTATED	<u>13,226,949</u>	<u>14,869,989</u>	<u>1,643,040</u>	<u>14,869,989</u>
	<u>\$ 51,531,747</u>	<u>\$ 48,723,385</u>	<u>\$ (2,808,362)</u>	<u>\$ 63,734,593</u>
	2011			
	Original And Final Budget	Actual	Variance with Final Budget Positive (Negative)	2010 Actual
EXPENDITURES:				
Capital outlay	\$ 40,348,626	\$ 22,364,537	\$ 17,984,089	\$ 48,359,146
Contingency	5,000,000	-	5,000,000	-
Total expenditures	<u>45,348,626</u>	<u>22,364,537</u>	<u>22,984,089</u>	<u>48,359,146</u>
OTHER FINANCING USE:				
Transfer to Revenue Bond Fund	2,007,150	1,657,219	349,931	2,924,350
Transfer to Tri-City General Fund	4,000,000	4,000,000	-	-
Total other financing uses	<u>6,007,150</u>	<u>5,657,219</u>	<u>349,931</u>	<u>2,924,350</u>
Total expenditures and other financing use	51,355,776	<u>\$ 28,021,756</u>	<u>\$ 23,334,020</u>	<u>\$ 51,283,496</u>
UNAPPROPRIATED ENDING FUND BALANCE	<u>175,971</u>			
	<u>\$ 51,531,747</u>			

* Beginning Fund Balance was restated to reflect change to the accrual basis.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
SURFACE WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)

	2011			2010 Actual
	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)	
REVENUES:				
Monthly service charges	\$ 3,708,720	\$ 3,672,656	\$ (36,064)	\$ 3,653,773
Interest on investments	16,494	16,240	(254)	15,700
Grants	-	18,000	18,000	11,000
Miscellaneous	160,000	118,909	(41,091)	149,592
Total revenues	<u>3,885,214</u>	<u>3,825,805</u>	<u>(59,409)</u>	<u>3,830,065</u>
BEGINNING FUND BALANCE as previously reported	3,298,754	2,950,325	(348,429)	2,771,962
RESTATEMENT *	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,363</u>
BEGINNING FUND BALANCE AVAILABLE FOR APPROPRIATION AS RESTATED	<u>3,298,754</u>	<u>2,950,325</u>	<u>(348,429)</u>	<u>2,950,325</u>
	<u>\$ 7,183,968</u>	<u>\$ 6,776,130</u>	<u>\$ (407,838)</u>	<u>\$ 6,780,390</u>
2011				
	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)	2010 Actual
EXPENDITURES:				
Materials and services	\$ 3,758,628	\$ 3,542,082	\$ 216,546	\$ 2,850,198
Contingency	375,863	-	375,863	-
Total expenditures	<u>4,134,491</u>	<u>3,542,082</u>	<u>592,409</u>	<u>2,850,198</u>
OTHER FINANCING USES:				
Transfers to other funds:				
Revenue Bond Fund	379,413	379,413	-	378,871
Surface Water Construction Fund	-	-	-	500,000
Total other financing uses	<u>379,413</u>	<u>379,413</u>	<u>-</u>	<u>878,871</u>
Total expenditures and other financing uses	4,513,904	<u>\$ 3,921,495</u>	<u>\$ 592,409</u>	<u>\$ 3,729,069</u>
UNAPPROPRIATED ENDING FUND BALANCE	<u>2,670,064</u>			
	<u>\$ 7,183,968</u>			

* Beginning Fund Balance was restated to reflect change to the accrual basis.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
SURFACE WATER CONSTRUCTION FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)

	2011			2010 Actual
	Original And Final Budget	Actual	Variance with Final Budget Positive (Negative)	
REVENUES:				
Interest on investments	\$ 27,147	\$ 33,320	\$ 6,173	\$ 27,543
Total revenues	27,147	33,320	6,173	27,543
OTHER FINANCING SOURCE:				
Transfer from Surface Water Fund	-	-	-	500,000
Total revenues and other financing source	27,147	33,320	6,173	527,543
BEGINNING FUND BALANCE as previously reported	5,429,068	5,753,088	324,020	5,737,879
RESTATEMENT *	-	-	-	15,209
BEGINNING FUND BALANCE AVAILABLE FOR APPROPRIATION AS RESTATED	5,429,068	5,753,088	324,020	5,753,088
	<u>\$ 5,456,215</u>	<u>\$ 5,786,408</u>	<u>\$ 330,193</u>	<u>\$ 6,280,631</u>
		2011		
	Original And Final Budget	Actual	Variance with Final Budget Positive (Negative)	2010 Actual
EXPENDITURES:				
Capital outlay	\$ 1,200,000	\$ 562,107	\$ 637,893	\$ 7,778
Contingency	200,000	-	200,000	-
Total expenditures	1,400,000	<u>\$ 562,107</u>	<u>\$ 837,893</u>	<u>\$ 7,778</u>
UNAPPROPRIATED ENDING FUND BALANCE	<u>4,056,215</u>			
	<u>\$ 5,456,215</u>			

* Beginning Fund Balance was restated to reflect change to the accrual basis.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County, Oregon)
REVENUE BOND FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)

	2011		Variance with Final Budget Positive (Negative)	2010 Actual
	Original And Final Budget	Actual		
REVENUES:				
Collection of assessment principal	\$ 30,000	\$ -	\$ (30,000)	\$ -
Collection of assessment interest	5,000	16,399	11,399	18,210
Interest on investments	35,766	56,437	20,671	49,610
Total revenues	70,766	72,836	2,070	67,820
OTHER FINANCING SOURCES:				
Transfer from Sanitary Sewer Fund	7,402,695	5,988,261	(1,414,434)	3,921,888
Transfer from Surface Water Fund	379,413	379,413	-	378,871
Transfer from Sanitary Sewer Construction Fund	2,007,150	1,657,219	(349,931)	2,924,350
Total other financing sources	9,789,258	8,024,893	(1,764,365)	7,225,109
Total revenues and other financing sources	9,860,024	8,097,729	(1,762,295)	7,292,929
BEGINNING FUND BALANCE as previously reported	7,153,187	4,796,104	(2,357,083)	4,392,862
RESTATEMENT *	-	-	-	403,242
BEGINNING FUND BALANCE AVAILABLE FOR APPROPRIATION AS RESTATED	7,153,187	4,796,104	(2,357,083)	4,796,104
	\$ 17,013,211	\$ 12,893,833	\$ (4,119,378)	\$ 12,089,033
EXPENDITURES:				
Debt service - principal	\$ 3,070,000	\$ 3,070,000	\$ -	\$ 1,445,000
Debt service - interest	4,930,758	3,994,325	936,433	2,863,867
Total expenditures	8,000,758	\$ 7,064,325	\$ 936,433	\$ 4,308,867
UNAPPROPRIATED ENDING FUND BALANCE	9,012,453			
	\$ 17,013,211			

* Beginning Fund Balance was restated to reflect change to the accrual basis.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(A Component Unit of Clackamas County)
RECONCILIATION OF REVENUES AND EXPENDITURES TO CHANGES IN NET ASSETS
for the years ended June 30, 2011 and 2010

<u>Budgetary Basis</u>	2011 <u>Combined</u>	2010 <u>Combined</u>
Revenues	\$ 28,165,036	\$ 23,792,979
Expenditures	<u>50,415,216</u>	<u>67,960,717</u>
	(22,250,180)	(44,167,738)
Add (deduct) items to reconcile to change in net assets on an enterprise fund reporting basis:		
Payment of bond principal	3,070,000	1,445,000
Expenditures capitalized	25,753,109	50,189,443
Depreciation and amortization expense	(5,784,798)	(5,892,894)
State loan repayment	179,537	172,379
construction expenses and disposals	(194,873)	(192,711)
Contributions from governments, developers and customers	398,413	422,929
Grant revenue	-	2,000,000
Capitalized interest	3,729,118	2,514,562
Bond issuance costs	76,462	89,442
Amortization of deferred amount in refunding	(74,673)	(85,962)
Amortization of issuance costs	(24,374)	(29,960)
Other	-	(274)
Change in net assets	<u>\$ 4,877,741</u>	<u>\$ 6,464,216</u>

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Statistical Section



STATISTICAL SECTION

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

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how financial performance has changed over time.	42
Revenue Capacity These schedules contain information to help the reader assess the District's most significant revenue source, user fees.	44
Debt Capacity These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future. The District does not have any indebtedness subject to the legal debt limitation in accordance with Oregon Revised Statutes 451.545; consequently, the schedule of the computation of legal debt margin is not included in the statistical section.	47
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	50
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	52

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

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

NET ASSETS BY COMPONENT
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted	Total Net Assets
2002	\$ 64,510,088	\$ 469,279	\$ 20,055,700	\$ 85,035,067
2003	69,667,522	1,198,212	18,704,048	89,569,782
2004	74,103,811	1,874,692	23,251,928	99,230,431
2005	79,882,240	2,184,167	26,954,458	109,020,865
2006	83,620,010	2,391,417	30,940,615	116,952,042
2007	97,963,154	2,439,378	29,421,416	129,823,948
2008	113,214,147	1,741,198	25,551,984	140,507,329
2009	128,618,509	3,973,250	11,226,428	143,818,187
2010	134,963,988	6,991,181	8,327,234	150,282,403
2011	138,813,606	8,043,721	8,302,818	155,160,145

Source: District's Comprehensive Annual Financial Report

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

CHANGES IN NET ASSETS
Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Operating revenues:										
Sewerage and surface water charges	\$ 10,986,782	\$ 11,118,582	\$ 11,446,558	\$ 11,467,848	\$ 11,924,297	\$ 12,845,817	\$ 14,350,227	\$ 15,888,357	\$ 18,412,534	\$ 19,726,719
Municipal and other	1,090,873	1,203,637	1,126,537	1,316,384	1,293,175	906,177	1,205,243	1,355,687	2,255,734	2,461,608
Other operating revenues	529,758	783,771	1,227,306	1,360,865	1,430,261	1,283,472	1,134,552	970,295	797,053	868,823
Total operating revenues	<u>12,607,413</u>	<u>13,105,990</u>	<u>13,800,401</u>	<u>14,145,097</u>	<u>14,647,733</u>	<u>15,035,466</u>	<u>16,690,022</u>	<u>18,214,339</u>	<u>21,465,321</u>	<u>23,057,150</u>
Operating expenses:										
Contracted salaries and benefits	6,075,965	6,581,754	6,663,540	7,030,058	7,850,246	6,779,176	6,938,844	7,062,707	7,074,325	7,240,023
Professional services	526,334	451,807	659,395	452,281	714,569	959,139	1,053,673	1,413,120	1,827,070	2,108,217
Other County Services	-	-	-	-	-	1,045,654	1,029,106	1,199,416	1,445,135	1,470,097
Supplies	449,812	740,445	1,323,352	629,967	641,754	301,053	771,100	906,372	866,930	406,502
Vehicle Expense	-	-	-	-	-	419,997	451,871	348,841	373,022	404,118
Repairs and maintenance	597,985	-	-	1,591,556	135,005	228,729	197,771	191,723	195,426	197,381
Utilities	-	583,231	555,852	502,721	536,692	637,158	690,110	683,632	761,963	865,569
Insurance	-	-	-	-	-	165,836	158,534	162,319	161,780	150,792
Other Expense	847,310	794,339	691,773	427,024	451,411	282,655	259,758	379,973	441,535	459,340
Depreciation	2,977,686	3,072,607	3,748,737	3,786,380	3,709,411	3,872,591	4,543,307	5,187,758	5,892,894	5,784,798
Total operating expenses	<u>11,475,092</u>	<u>12,224,183</u>	<u>13,642,649</u>	<u>14,419,987</u>	<u>14,039,088</u>	<u>14,691,988</u>	<u>16,094,074</u>	<u>17,535,861</u>	<u>19,040,080</u>	<u>19,086,837</u>
Operating income	<u>1,132,321</u>	<u>881,807</u>	<u>157,752</u>	<u>(274,890)</u>	<u>608,645</u>	<u>343,478</u>	<u>595,948</u>	<u>678,478</u>	<u>2,425,241</u>	<u>3,970,313</u>
Nonoperating revenue (expense):										
Interest income	706,457	530,806	549,024	825,700	983,464	1,683,990	1,684,674	848,728	651,411	360,776
Interest expense	(813,765)	(650,776)	(707,246)	(571,610)	(519,223)	(463,053)	(401,913)	(355,661)	(314,396)	(272,185)
Other nonoperating revenue (expenses)	42,500	(19,735)	258,366	(98,148)	(583,679)	(206,957)	17,092	(3,157,520)	(299,424)	(4,217,627)
Total nonoperating revenue (expense)	<u>(64,808)</u>	<u>(139,705)</u>	<u>100,144</u>	<u>155,942</u>	<u>(119,438)</u>	<u>1,013,980</u>	<u>1,299,853</u>	<u>(2,664,453)</u>	<u>37,591</u>	<u>(4,129,036)</u>
Income (loss) before contributions	<u>1,067,513</u>	<u>742,102</u>	<u>257,896</u>	<u>(118,948)</u>	<u>489,207</u>	<u>1,357,458</u>	<u>1,895,801</u>	<u>(1,985,975)</u>	<u>2,462,832</u>	<u>(158,723)</u>
Contributions	7,535,958	3,792,613	9,402,753	9,909,382	7,441,970	11,514,446	8,787,580	5,296,833	4,001,384	5,036,465
Change in Net Assets	<u>\$ 8,603,471</u>	<u>\$ 4,534,715</u>	<u>\$ 9,660,649</u>	<u>\$ 9,790,434</u>	<u>\$ 7,931,177</u>	<u>\$ 12,871,904</u>	<u>\$ 10,683,381</u>	<u>\$ 3,310,858</u>	<u>\$ 6,464,216</u>	<u>\$ 4,877,742</u>

Source: District's Comprehensive Annual Financial Report

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

USER FEE REVENUE BY TYPE OF CUSTOMER
Last Ten Fiscal Years

Type of Customer	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Sanitary Sewer										
Cities	\$ 1,090,873	\$ 1,208,675	\$ 1,126,537	\$ 1,316,384	\$ 1,293,175	\$ 1,131,985	\$ 1,205,243	\$ 1,355,687	\$ 2,255,734	\$ 2,461,608
Residential	3,449,296	3,548,032	3,697,786	3,711,885	4,001,940	4,477,024	5,137,417	5,910,986	7,008,541	7,708,083
Commercial	1,369,962	1,338,635	1,297,719	1,288,617	1,309,828	1,390,506	1,625,333	1,846,936	2,200,618	2,384,496
Industrial	343,992	317,232	435,111	406,539	497,921	558,458	614,800	650,177	756,707	749,693
Other	2,785,650	2,816,374	2,828,342	2,860,485	2,806,628	2,805,320	3,503,854	3,940,581	4,792,895	5,211,790
Surface Water										
Residential	907,068	936,498	970,515	975,586	1,035,692	1,084,584	1,122,024	1,141,125	1,153,556	1,153,380
Commercial	2,017,471	2,033,809	2,078,701	2,073,565	2,096,338	2,105,872	2,126,766	2,167,256	2,266,915	2,281,926
Other	113,343	122,964	138,383	151,171	175,950	198,245	220,033	231,296	233,302	237,351
Total	\$ 12,077,655	\$ 12,322,219	\$ 12,573,094	\$ 12,784,232	\$ 13,217,472	\$ 13,751,994	\$ 15,555,470	\$ 17,244,044	\$ 20,668,268	\$ 22,188,327

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

ASSESSED AND MARKET VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Assessed Valuation	Market Valuation	Assessed Value as a percentage of Market Value
2002	\$ 3,381,459,117	\$ 5,238,825,148	64.5%
2003	3,801,200,647	5,485,392,214	69.3%
2004	4,033,419,091	5,815,093,563	69.4%
2005	4,263,803,356	6,349,041,240	67.2%
2006	4,605,019,048	7,258,965,866	63.4%
2007	5,287,112,730	8,725,660,469	60.6%
2008	5,726,528,415	10,181,943,186	56.2%
2009	6,143,190,136	10,868,801,828	56.5%
2010	6,391,427,839	9,754,775,067	65.5%
2011	6,634,168,746	8,834,786,108	75.1%

Source: Clackamas County Department of Assessment and Taxation

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

PRINCIPAL PROPERTY TAXPAYERS WITHIN DISTRICT¹
Current Year and Nine Years Ago

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	2011			2002		
	Taxable Assessed Valuation	Rank	Percentage of Total District Taxable Assessed Value	Taxable Assessed Valuation	Rank	Percentage of Total District Taxable Assessed Value
<u>Private Enterprises</u>						
Shorenstein Properties LLC	\$ 241,726,629	1	0.65 %			
General Growth Properties Inc	236,967,684	2	0.64			
Fred Meyer Stores Inc #651	178,581,093	3	0.48	49,651,358	7	0.21
Xerox Corporation	87,599,652	4	0.24	43,281,753	8	0.18
PCC Structurals Inc	86,161,228	5	0.23	51,982,796	6	0.22
Thomson Reuters Pts Inc	65,208,007	6	0.18			
Blount Inc	64,047,836	7	0.17	32,314,919	10	0.13
Mentor Graphics Corp	54,692,492	8	0.15	55,783,380	4	0.23
Safeway Stores Inc	52,882,011	9	0.14			
Kaiser Foundation Hospital	47,689,985	10	0.13			
Commonwealth Rlty Adv Inc				106,309,963	1	0.44
Deloitte & Touche LLP				79,618,008	2	0.33
Wilmington Trust				70,353,604	3	0.29
Society Sisters Holy Names & Jesus & Mary				54,957,450	5	0.23
Speiker Properties LP				43,268,662	9	0.18
<u>Public Utilities</u>						
Portland General Electric Co	536,048,000		1.45	379,123,900		1.58
Northwest Natural Gas Co	189,443,500		0.51	110,850,700		0.46
Comcast Corporation	144,085,600		0.39			
Qwest Corporation	54,494,200		0.15	90,557,716		0.38
Frontier Communications	53,468,900		0.14			
All Other Taxpayers	<u>34,984,498,974</u>		<u>94.35</u>	<u>22,831,562,502</u>		<u>95.14</u>
Total	<u>\$ 37,077,595,791</u>		<u>100.00 %</u>	<u>\$ 23,999,616,711</u>		<u>100.00 %</u>

Source: Clackamas County Department of Assessment and Taxation
¹Clackamas County in its entirety

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Revenue Bonds and Obligations	Bancroft Improvement Bonds	Loan Payable	Total	Percentage of Personal Income	Per Capita
2002	\$ 12,748,000	\$ 690,424	\$ 2,176,607	\$ 15,615,031	0.56 %	198
2003	13,188,000	350,424	2,046,947	15,585,371	0.55	196
2004	12,415,000	335,424	1,911,904	14,662,328	0.48	181
2005	11,595,000	320,424	1,771,253	13,686,677	0.42	166
2006	10,730,000	320,424	1,624,762	12,675,186	0.36	150
2007	9,790,000	320,424	1,472,188	11,582,612	0.31	134
2008	8,815,000	-	1,313,279	10,128,279	0.26	115
2009	46,265,000	-	1,147,772	47,412,772	1.21	528
2010	89,185,000	-	1,553,659	90,738,659	N/A	1,009
2011	109,825,000	-	6,614,269	116,439,269	N/A	1,275

NA: Not available

Source: District's records

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

OVERLAPPING GENERAL OBLIGATION BONDED DEBT
June 30, 2011

Governmental Unit	Debt Outstanding	Percent Overlapping	Overlapping General Obligation Bonded Debt
Debt repaid with property taxes:			
City of Happy Valley	\$ 4,555,000	87.68 %	\$ 3,993,824
Clackamas Community College	32,605,000	22.88	7,460,024
Clackamas County	76,195,000	16.62	12,663,609
Clackamas County Rural Fire Protection District #1	3,500,000	41.07	1,437,450
Clackamas County School District #115 (Gladstone)	56,683,548	16.73	9,483,158
Clackamas County School District #12 (North Clackamas)	365,473,306	60.54	221,257,539
Clackamas County School District #46 (Oregon Trail)	114,035,487	0.56	638,599
Metro	158,020,000	4.01	6,336,602
Mt Hood Community College	22,615,000	0.07	15,831
Multnomah County School District #28J (Centennial)	31,788,184	0.11	34,967
Oak Lodge Water District	645,000	14.10	90,945
Tri-Metropolitan Transportation District	9,800,000	3.90	382,200
Other Debt:			
City of Gladstone	2,050,000	16.87	345,835
Clackamas Community College	50,755,000	22.88	11,612,744
Clackamas County	26,455,000	16.62	4,396,821
Clackamas County Education Service District	26,075,000	17.45	4,550,088
Clackamas County Rural Fire Protection District #1	19,910,000	41.07	8,177,037
Metro	51,120,000	4.01	2,049,912
Mt. Hood Community College	48,671,319	0.07	34,070
Multnomah County Education Service District	35,560,000	-	-
North Clackamas Parks & Recreation District	17,690,000	60.22	10,652,918
Port of Portland	70,415,722	3.67	2,584,257
	<u>\$ 1,224,617,566</u>		<u>\$ 308,198,430</u>

Note:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the District. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the District.

The State of Oregon provides overlapping debt data based on real market valuation of properties for each jurisdiction.

Source: Municipal Debt Advisory Commission, State of Oregon

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years

SPECIAL ASSESSMENT BONDS

Fiscal Year Ended June 30,	Assessment Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2002	\$458,412	\$ -	\$458,412	\$355,000	\$62,945	109.68 %
2003	875,776	-	875,776	340,000	149,039	179.08
2004	755,777	-	755,777	113,000	135,096	304.63
2005	20,940	-	20,940	15,000	25,106	52.21
2006	20,222	-	20,222	-	24,352	83.04
2007	19,744	-	19,744	-	24,352	81.08
2008	5,169	-	5,169	320,424	12,177	1.55
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-

Source: District's records

All Bancroft bonded debt was paid as of 06/30/08.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Ended June 30,	Population Estimate ³	Personal Income ²	Per Capita Personal Income ^{1, 2}	Unemployment Rate (PMSA)	
2002	78,777	\$ 2,782,088,532	\$ 35,316	5.9	%
2003	79,358	2,854,745,334	35,973	6.7	
2004	81,055	3,050,180,705	37,631	7.4	
2005	82,576	3,230,042,816	39,116	6.8	
2006	84,639	3,502,192,542	41,378	5.4	
2007	86,373	3,797,388,945	43,965	4.6	
2008	88,004	3,942,843,212	44,803	4.8	
2009	89,750	3,917,228,500	43,646	11.3	
2010	89,957	N/A	N/A	9.9	
2011	91,309	N/A	N/A	9.1	

N/A: Not available

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

¹2002-2005 Per Capita Personal Income statistics revised June, 2008.

²Figures are for calendar year; Personal Income and Per Capita Personal Income for 2010 and 2011 are not available (N/A).

³Population estimate based on 2.56 people per dwelling unit in Clackamas County Service District No. 1.

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

Employer	2011			2002		
	Employees	Rank	Percentage of Total	Employees	Rank	Percentage of Total
Intel Corp.	15,228	1	.02 %	16,000	1	.02 %
Providence Health System	13,831	2	.01	12,800	3	.01
Oregon Health & Sciences University	13,283	3	.01	10,100	4	.01
Fred Meyer Stores	9,630	4	.01	13,325	2	.01
Kaiser Foundation Health Plan of the Northwest	9,204	5	.01	7,093	7	.01
Legacy Health System	8,250	6	.01	7,158	6	.01
Multnomah County	6,310	7	.01			
Nike Inc.	6,000	8	.01			
Portland Public Schools	5,101	9	.01			
City of Portland	5,000	10	.01			
State of Oregon				9,534	5	.01
Safeway, Inc., Portland Division				6,000	8	.01
US Bancorp				4,242	9	.00
Meier & Frank				3,500	10	.00
Total	<u>91,837</u>		<u>.11 %</u>	<u>89,752</u>		<u>.09 %</u>

Sources:

(1) Statistics are the latest available data published in the Portland Business Journal *Book of Lists 2011* and *Book of Lists 2002*. The Business Journal *Book of Lists* ranks Portland Metropolitan Area employers.

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

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
Last Ten Fiscal Years

Function	Full-time Equivalent Employees as of June 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Business & Financial Services	23	23	18	16	17	17	16	18	16	20
Asset and Capacity Management	13	16	18	23	24	24	29	30	29	28
Water Quality Services	28	25	28	31	32	29	29	28	28	25
Environmental Monitoring Services	7	12	9	11	11	15	15	15	15	13
Total	<u>71</u>	<u>76</u>	<u>73</u>	<u>81</u>	<u>84</u>	<u>85</u>	<u>89</u>	<u>91</u>	<u>88</u>	<u>86</u>

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

Source: District's records

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

Function	Fiscal year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Business-type activities:										
Sanitary Sewer										
Monthly service charge	\$ 22.00	\$ 22.00	\$ 22.00	\$ 22.00	\$ 22.00	\$ 23.00	\$ 26.00	\$ 29.50	\$ 34.85	\$ 38.00
Total amount collected	\$ 9,039,773	\$ 9,228,948	\$ 9,385,496	\$ 9,583,910	\$ 9,909,492	\$ 10,629,278	\$ 12,086,648	\$ 13,704,367	\$ 17,014,496	\$ 18,515,670
Percentage increase	2.6%	2.1%	1.7%	2.1%	3.4%	7.3%	13.7%	13.4%	24.2%	8.8%
Connection fees/EDU	\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,200	\$ 5,200	\$ 6,600	\$ 6,600
Total amount collected	\$ 1,568,658	\$ 1,486,271	\$ 1,557,526	\$ 2,733,197	\$ 3,965,201	\$ 2,234,723	\$ 1,480,603	\$ 1,124,632	\$ 1,321,731	\$ 4,203,164
Percentage increase/(decrease)	-13.5%	-5.3%	4.8%	75.5%	45.1%	-43.6%	-33.7%	-24.0%	17.5%	218.0%
Kellogg Hydraulic treatment capacity (in million gallons/day)	10.129	10.129	10.129	10.129	10.129	10.129	10.129	10.129	10.129	10,129
Current flows (in million gallons/day)	8.400	9.704	8.478	8.314	8.724	8.670	8.730	7.876	7.895	8.860
Surface Water Management										
Monthly service charge	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00
Total amount collected	\$ 3,037,882	\$ 3,093,271	\$ 3,187,599	\$ 3,200,323	\$ 3,307,980	\$ 3,388,701	\$ 3,468,822	\$ 3,539,677	\$ 3,653,773	\$ 3,672,657
Percentage increase	51.3%	1.8%	3.0%	0.4%	3.4%	2.4%	2.4%	2.0%	3.2%	0.5%
Connection fees/EDU	\$ 205	\$ 205	\$ 205	\$ 205	\$ 205	\$ 205	\$ 205	\$ 205	\$ 205	\$ 205
Total amount collected	\$ 150,510	\$ 138,530	\$ 119,515	\$ 242,588	\$ 252,792	\$ 193,877	\$ 137,965	\$ 108,240	\$ 132,690	\$ 53,300
Percentage increase/(decrease)	-15.6%	-8.0%	-13.7%	103.0%	4.2%	-23.3%	-28.8%	-21.5%	22.6%	-59.8%

Source: District's records

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

CLACKAMAS COUNTY SERVICE DISTRICT NO. 1
(a Component Unit of Clackamas County, Oregon)

CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years

Function	Fiscal year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Business-type Activities:										
Sanitary Sewer										
Treatment Plants	3	3	3	3	3	3	3	3	3	3
Sand Filters	1	1	1	1	1	1	1	1	1	1
Pump Stations	11	11	11	12	12	12	12	16	16	16
Miles of Pipe	251	255	262	276	282	301	308	317	317	317
Surface Water										
Catch Basins / Manholes	NA	NA	NA	NA	8,000	8,049	14,901	15,222	15,628	15,628
Continuous Monitoring Stations	5	5	5	5	5	5	5	5	5	5

NA - Not available

Source: District's records

Compliance Reports



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

Board of County Commissioners of
Clackamas County, Oregon, as Governing Body of
Clackamas County Service District No. 1
Oregon City, Oregon

We have audited the basic financial statements of Clackamas County Service District No. 1 (the District), a component unit of Clackamas County, Oregon as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 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

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

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

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

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

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 would 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 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 Audit Committee, Board of County Commissioners, management, and others within the District and is not intended to be and should not be used by anyone other than those specified parties.

Moss Adams LLP

Portland, Oregon
December 14, 2011

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

Board of County Commissioners of
Clackamas County, Oregon, as Governing Body of
Clackamas County Service District No. 1
Oregon City, Oregon

We have audited the basic financial statements of Clackamas County Service District No. 1 (the District), a component unit of Clackamas County, Oregon, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 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 the District's 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.

We performed the procedures to the extent we considered necessary to address the requirement comments and disclosures, but not limited to the following:

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Authorized investment surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

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

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

Public Contracting: The District did not always retain documentation to evidence it conducted competitive bidding when contracting contracts. In addition, the District awarded four sole-source contracts to the same contractor but was not able to demonstrate their determination was made based on written findings at the time and the contractor does not meet the requirements as a sole-source provider.

Internal Control over Financial Reporting

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

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

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

MOSS ADAMS LLP

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

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



Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
December 14, 2011

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