

AUDITED FINANCIAL REPORT

For the fiscal year ended June 30, 2010



Surface Water Management Agency of Clackamas County

(A Component Unit of Clackamas County, Oregon)

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

FINANCIAL STATEMENTS
For the fiscal years ended June 30, 2010 and 2009

Prepared by:
WATER ENVIRONMENT SERVICES
Financial Management Section

Douglas Waugh, Finance Manager
Natalie Van Hook, Senior Accountant
Carla Atwood, Senior Accountant

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(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, 2010

<u>Name</u>	<u>Term Expires</u>
Lynn Peterson, Chair Public Services Building	December 31, 2012
Bob Austin, Commissioner Public Services Building	December 31, 2010
Jim Bernard, Commissioner Public Services Building	December 31, 2010
Charlotte Lehan, Commissioner Public Services Building	December 31, 2012
Ann Lininger, Commissioner Public Services Building	December 31, 2010

ADMINISTRATIVE OFFICES

Water Environment Services
Clackamas County, Oregon
150 Beavercreek Road
Oregon City, Oregon 97045

DISTRICT ADMINISTRATOR

Steve Wheeler
2051 Kaen Road
Oregon City, Oregon 97045

REGISTERED AGENT

Michael S. Kuenzi
150 Beavercreek Road
Oregon City, Oregon 97045

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

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INDEPENDENT AUDITOR'S REPORT

November 29, 2010

Board of County Commissioners of
Clackamas County, Oregon, as of Governing Body of
Surface Water Management Agency of Clackamas County
Oregon City, Oregon

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We have audited the accompanying basic financial statements of Surface Water Management Agency of Clackamas County (the Agency), a component unit of Clackamas County, Oregon, as of and for the years ended June 30, 2010 and 2009, as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of June 30, 2010 and 2009, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2010, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Board of County Commissioners of
Clackamas County, Oregon, as of Governing Body of
Surface Water Management Agency of Clackamas County
November 29, 2010
Page 2

Management's Discussion and Analysis on pages 3 through 6 is 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 opinions on the basic financial statements. The Supplementary Information, as listed in the Table of Contents, 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, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By 

Timothy R. Gillette, Partner

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

As management of Surface Water Management Agency of Clackamas County (the Agency), we offer readers of our basic financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2010. 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 \$279 (net assets). Of this amount, \$197 (unrestricted net assets) may be used to meet our ongoing obligations of providing surface water management services.
- The Agency's total assets increased to \$328 from \$309 last fiscal year and are \$28 higher than two fiscal years ago. This year's increase resulted from an increase in the total of our cash and cash equivalents due to: an increase in cash received from customers; an increase in other operating revenue, primarily in surface water plan review fees; a small increase in accounts receivable; and was partially offset by a decrease in net capital assets and interest receivable.
- Liabilities increased by \$26 from last fiscal year as a result of a higher number of payment requests being received after the end of the last fiscal year. Liabilities this year were also higher than two years ago due to an increase in payment requests primarily related to professional services for the Watershed Action Plan.
- Total net assets decreased slightly from last fiscal year. Operating expenses increased 29.3% or \$46 from the prior year, due to increases in professional services and offset by further reductions in contracted salaries and benefits. Operating expenses are higher than last year, as a result of higher professional services, which are offset by lower contracted salaries. Surface water management charges increased slightly compared to the previous fiscal year because equivalent surface units (ESU) increased for a large customer. Other operating revenue increased \$20 due to an increase in the plan review fees charged. Several large homes and small subdivisions accounted for the increase.

Net Assets

	2010	2009	2008
Current and other assets	\$ 246	\$ 225	\$ 214
Capital assets	82	84	86
Total assets	328	309	300
Current liabilities	49	23	27
Invested in capital assets, net of related debt	82	84	86
Unrestricted	197	202	187
Total net assets, end of period	\$ 279	\$ 286	\$ 273

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2010

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency'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 Agency's operations.

The Statements of Net Assets present information on all of the Agency's assets, liabilities, and net assets. Over time, changes in assets, liabilities, and net assets may serve as a useful indicator of whether the Agency'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 Agency's cash balance during the fiscal year. They are divided into two components: cash from operations of the Agency, and cash from investing activities.

Financial Analysis

The financial operations of the Agency are primarily related to the development and implementation of management plans to improve the quality of the surface waters that drain into the Lower Tualatin River and Oswego Lake Basins.

Revenues from surface water management charges increased from the prior fiscal year, up from \$157 last fiscal year and up from \$156 for fiscal year 2008 to \$167 this fiscal year. The increase in other operating revenue is the result of an increase in the plan review fee charged to new development. Nonoperating revenue decreased from the previous fiscal year due to decreased interest income resulting from lower interest rates available on investments. Nonoperating revenue is also down from two fiscal years ago for the same reason.

Operating expenses as a whole increased \$46 or 29.3%. Contracted salaries and benefits decreased, while professional expenses and lab services expenses increased.

The overall result was a reduction in net assets of \$7.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2010

Changes in Net Assets

	2010	2009	2008
Operating revenues:			
Surface water management charges	\$ 167	\$ 157	\$ 156
Other	29	9	22
Total operating revenue	196	166	178
Operating expenses:			
Contracted salaries and benefits	49	62	92
Professional services	81	21	38
Laboratory services	18	13	13
Other County services	32	29	22
Supplies	2	2	6
Vehicle expenses	1	1	3
Utilities	1	1	1
Insurance	1	1	1
Other expenses	17	26	31
Depreciation	2	2	2
Total operating expenses	204	158	209
Operating income (loss)	(8)	8	(31)
Nonoperating revenue:			
Interest income	1	5	9
Change in net assets	(7)	13	(22)
Net assets - beginning of period	286	273	295
Net assets - end of period	\$ 279	\$ 286	\$ 273

Capital Assets

The Agency's capital assets decreased from \$84 in 2009 to \$82 in 2010 as a result of depreciation. Detail information may be found in Note 2 in the Notes to Basic Financial Statements.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2010

Economic Factors

Over time, the annexation of the unincorporated areas surrounding the Lower Tualatin River is resulting in the shifting of customer accounts to the surrounding cities. This annexation to cities ultimately benefits water quality by allowing for the construction of sanitary sewers to replace existing septic systems.

Financial Contact

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

Financial Section



Basic Financial Statements



SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 231,824	\$ 212,247
Accounts receivable	13,942	12,453
Interest receivable	230	599
Prepaid expenses	<u>32</u>	<u>-</u>
Total current assets	246,028	225,299
Capital assets, net	<u>81,430</u>	<u>83,698</u>
Total assets	<u>327,458</u>	<u>308,997</u>
LIABILITY		
Current liability:		
Accounts payable	<u>48,850</u>	<u>22,755</u>
NET ASSETS		
Invested in capital assets	81,430	83,698
Unrestricted	<u>197,178</u>	<u>202,544</u>
Total net assets	<u>\$ 278,608</u>	<u>\$ 286,242</u>

The accompanying notes are an
integral part of the basic financial statements.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
for the years ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Surface water management charges	\$ 166,520	\$ 157,332
Other operating revenues	28,776	8,967
Total operating revenues	195,296	166,299
Operating expenses:		
Contracted salaries and benefits	49,412	61,674
Professional services	81,076	21,123
Laboratory services	17,958	13,530
Other County services	31,657	28,765
Supplies	2,301	2,088
Vehicle expenses	986	1,293
Repairs and maintenance	13	55
Utilities	574	637
Insurance	685	671
Other expenses	17,142	25,616
Depreciation	2,268	2,268
Total operating expenses	204,072	157,720
Operating income (loss)	(8,776)	8,579
Nonoperating revenue:		
Interest income	1,142	4,631
Change in net assets	(7,634)	13,210
Net assets, beginning of year	286,242	273,032
Net assets, end of year	\$ 278,608	\$ 286,242

The accompanying notes are an
integral part of the basic financial statements.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

STATEMENTS OF CASH FLOWS
for the years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Received from customers	\$ 165,031	\$ 155,881
Payments to suppliers and related entities for goods and services	(175,741)	(158,391)
Other operating revenue	28,776	8,967
Net cash from operating activities	18,066	6,457
Cash flows from investing activities:		
Interest received	1,511	4,923
Net increase in cash and cash equivalents	19,577	11,380
Cash and cash equivalents, beginning of year	212,247	200,867
Cash and cash equivalents, end of year	\$ 231,824	\$ 212,247
Reconciliation of operating income (loss) to net cash from operating activities:		
Operating income (loss)	\$ (8,776)	\$ 8,579
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation	2,268	2,268
Changes in assets and liabilities:		
Increase in accounts receivable	(1,489)	(1,451)
Decrease (increase) in prepaid expenses	(32)	1,733
Increase (decrease) in accounts payable	26,095	(4,662)
Decrease in other liabilities	-	(10)
Total adjustments	26,842	(2,122)
Net cash from operating activities	\$ 18,066	\$ 6,457

The accompanying notes are an integral part of the basic financial statements.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

1. Summary of Significant Accounting Policies:

The Agency

Surface Water Management Agency of Clackamas County (the Agency) was formed in March 1992 under the provisions of Chapter 451 of the Oregon Revised Statutes. As the result of a court decree, the Oregon Department of Environmental Quality (DEQ) required all municipalities whose surface water flows into the Tualatin River to develop and implement management plans to improve the water quality of the river. Clackamas County was required to provide a dedicated source of funding for surface water management to ensure long-term implementation of the water quality program. Consequently, Surface Water Management Agency of Clackamas County was formed as a service district to serve those unincorporated areas which drain into the lower Tualatin River and the Oswego Lake Basin. The Clackamas County Board of Commissioners is the governing body of the Agency as provided by ORS 451.485. Fiscal and accounting functions are provided by personnel of Water Environment Services, the Department of Transportation and Development, the County Treasurer, and the County's General Service Agency.

The Agency has no potential component units. Since Clackamas County, Oregon is financially accountable for and significantly influences the operations of the Agency and the Clackamas County Board of Commissioners also serves as the Agency's Board, the Agency is included as a blended component unit in the Comprehensive Annual Financial Report of Clackamas County, Oregon for the year ended June 30, 2010.

Basis of Accounting

The Agency's financial statements are prepared on the accrual basis of accounting. The Agency has applied all private-sector guidance issued before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements. The Agency has elected not to follow subsequent private sector guidance.

The Agency distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets

For financial reporting and operating purposes, management considers the Agency's activities as those of a utility operation. However, for legal compliance, the Agency is required to adopt a budget and make appropriations.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2010 AND 2009

1. Summary of Significant Accounting Policies, Continued:

Budgets, Continued:

The Agency begins its budgetary process by appointing Budget Committee members in the fall of each year. Budget recommendations are developed by management through early spring, with the Budget Committee approving the budget document in late spring. Public notices of the budget hearing are published prior to the public hearing held in June. The Board of Commissioners adopts the budget and authorizes appropriations no later than June 30.

The ordinance authorizing appropriations for the fund 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, operating contingencies, and other – which are the levels of control established by the resolution. Unexpected additional resources may be added to the budget through the use of a supplemental budget and transfers of appropriation resolutions. Supplemental budgets less than 10% of the fund's original budget may be adopted by the Board of Commissioners at a regular Board meeting. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publication in newspapers and approval by the Board of Commissioners. Original and supplemental budgets may be modified by the use of appropriation transfers between category levels. Such transfers require approval by the Board of Commissioners. No supplemental budgets or appropriation transfers were made during the year ended June 30, 2010. All annual appropriations lapse at fiscal year end.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of funds held and invested by Clackamas County Service District No. 1 (CCSD No.1). The Agency considers its cash and cash equivalents as a demand deposit account, whereby funds may be deposited or withdrawn without prior notice or penalty. Interest earnings are allocated from CCSD No.1 based on the proportion of the Agency's funds to total CCSD No.1 funds.

Reference should be made to the Clackamas County and Clackamas County Service District No. 1 Comprehensive Annual Financial Reports for the year ended June 30, 2010 for compliance with Oregon Revised Statutes relating to the collateralization of deposits and categorization of investments and disclosures required by GASB #3, #31 and #40.

Accounts Receivable

An allowance for doubtful accounts is not deemed necessary as uncollectible accounts become a lien on the property. All accounts receivable are due from property owners within the Agency's boundaries.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2010 AND 2009

1. Summary of Significant Accounting Policies, Continued:

Capital Assets

Capital assets are stated at cost or estimated fair market value at the time received in the case of donations. Normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Depreciation is computed on assets placed in service using the straight-line method over lives of five years for equipment and fifty years for collection plant.

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 two components: Investment in capital assets, net of related debt, and unrestricted net assets. Investment in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt (revenue bonds and other debt obligations) that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Unrestricted consists of all other net assets not included in the above category.

Risk Management

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

For workers' compensation, the Agency participates in Clackamas County's self-insurance program. All personnel of the Agency are contracted from the County. The Agency is not responsible for any workers' compensation risk. All risk of loss related to the self-insurance program is borne by the County. The County is fully self-insured for unemployment benefits and short-term disability benefits and partially self-insured for dental benefits and workers' compensation. The County carries coverage in excess of \$1,000,000 with an outside insurer for workers' compensation claims. Settled claims have not reached the commercial coverage in any of the past three fiscal years. No significant reduction in insurance coverage has occurred in the current year for any category of risk.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2010 AND 2009

1. Summary of Significant Accounting Policies, Continued:

Use of Estimates

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

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2010 AND 2009

2. Capital Assets:

Changes in capital assets for the years ended June 30, 2010 and 2009 are as follows:

	2010		
	Balance July 1, 2009	Additions	Balance June 30, 2010
Collection plant	\$ 131,633	\$ -	\$ 131,633
Equipment	10,304	-	10,304
Total	141,937	-	141,937
Accumulated depreciation	(58,239)	(2,268)	(60,507)
Capital assets, net	\$ 83,698	\$ (2,268)	\$ 81,430

	2009		
	Balance July 1, 2008	Additions	Balance June 30, 2009
Collection plant	\$ 131,633	\$ -	\$ 131,633
Equipment	10,304	-	10,304
Total	141,937	-	141,937
Accumulated depreciation	(55,971)	(2,268)	(58,239)
Capital assets, net	\$ 85,966	\$ (2,268)	\$ 83,698

3. Transactions with Related Parties:

The Clackamas County Board of Commissioners also serves as the Agency's governing body. In addition, Water Environment Services, Department of Transportation and Development, County Treasurer and Clackamas County Service District No. 1 perform certain fiscal and accounting services for which the Agency was charged \$99,027 and \$103,969 in fiscal 2010 and 2009, respectively. At June 30, 2010 and 2009, the Agency was obligated to Clackamas County for \$6,975 and \$10,263, respectively.

SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2010 AND 2009

4. Litigation:

The Agency 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 Agency. In the opinion of management, the ultimate disposition of such proceedings is not expected to have a material adverse effect on the Agency.

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Supplementary Information



SURFACE WATER MANAGEMENT AGENCY OF CLACKAMAS COUNTY
(a Component Unit of Clackamas County, Oregon)

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

	2010			
	Original And Final Budget	Actual	Variance with Final Budget Positive (Negative)	2009 Actual
REVENUES:				
Surface water management charges	\$ 156,096	\$ 166,520	\$ 10,424	\$ 156,033
Interest earnings	2,211	1,142	(1,069)	4,923
Miscellaneous income	10,000	28,776	18,776	8,816
Total revenues	168,307	196,438	28,131	169,772
BEGINNING FUND BALANCE AVAILABLE FOR APPROPRIATION	147,399	184,287	36,888	169,968
	\$ 315,706	\$ 380,725	\$ 65,019	\$ 339,740
EXPENDITURES:				
Materials and services	\$ 244,002	\$ 201,804	\$ 42,198	\$ 155,453
Contingency	24,400	-	24,400	-
Total expenditures	268,402	\$ 201,804	\$ 66,598	\$ 155,453
ENDING FUND BALANCE AVAILABLE FOR APPROPRIATION	47,304			
	\$ 315,706			
Reconciliation of revenues and expenditures to change in net assets:		2010		2009
Revenues		\$ 196,438		\$ 169,772
Expenditures		201,804		155,453
Revenues over (under) expenditures		(5,366)		14,319
Increase in accounts receivable		-		1,451
Depreciation		(2,268)		(2,268)
Decrease in interest receivable		-		(292)
Change in net assets		\$ (7,634)		\$ 13,210

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Compliance Reports





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

November 29, 2010

Board of County Commissioners of
Clackamas County, Oregon, as Governing Board of
Surface Water Management Agency of Clackamas County
Oregon City, Oregon

We have audited the basic financial statements of Surface Water Management Agency of Clackamas County (the Agency), a component unit of Clackamas County, Oregon, as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated November 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Page 2

COMPLIANCE AND OTHER MATTERS

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

* * * * *

This report is intended solely for the information and use of the Audit Committee, Board of County Commissioners, management and others within the Agency and is not intended to be and should not be used by anyone other than these specified parties.

Talbot, Korvola & Warwick LLP

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS**

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**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS**

November 29, 2010

Board of County Commissioners of
Clackamas County, Oregon, as Governing Board of
Surface Water Management Agency of Clackamas County
Oregon City, Oregon

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We have audited the basic financial statements of Surface Water Management Agency of Clackamas County (the Agency), a component unit of Clackamas County, Oregon, as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated November 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Minimum Standards for Audits of Oregon Municipal Corporations*.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-050 through 162-10-320 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Authorized investment of surplus funds (ORS Chapter 294).

**INDEPENDENT AUDITOR'S REPORT REQUIRED
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COMPLIANCE (Continued)

In connection with our testing, nothing came to our attention that caused us to believe the Agency was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-050 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

INTERNAL CONTROL

Our report relating to 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* is contained on pages 17 and 18 of this report.

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

Talbot, Kowala & Warwick LLP

Certified Public Accountants

