

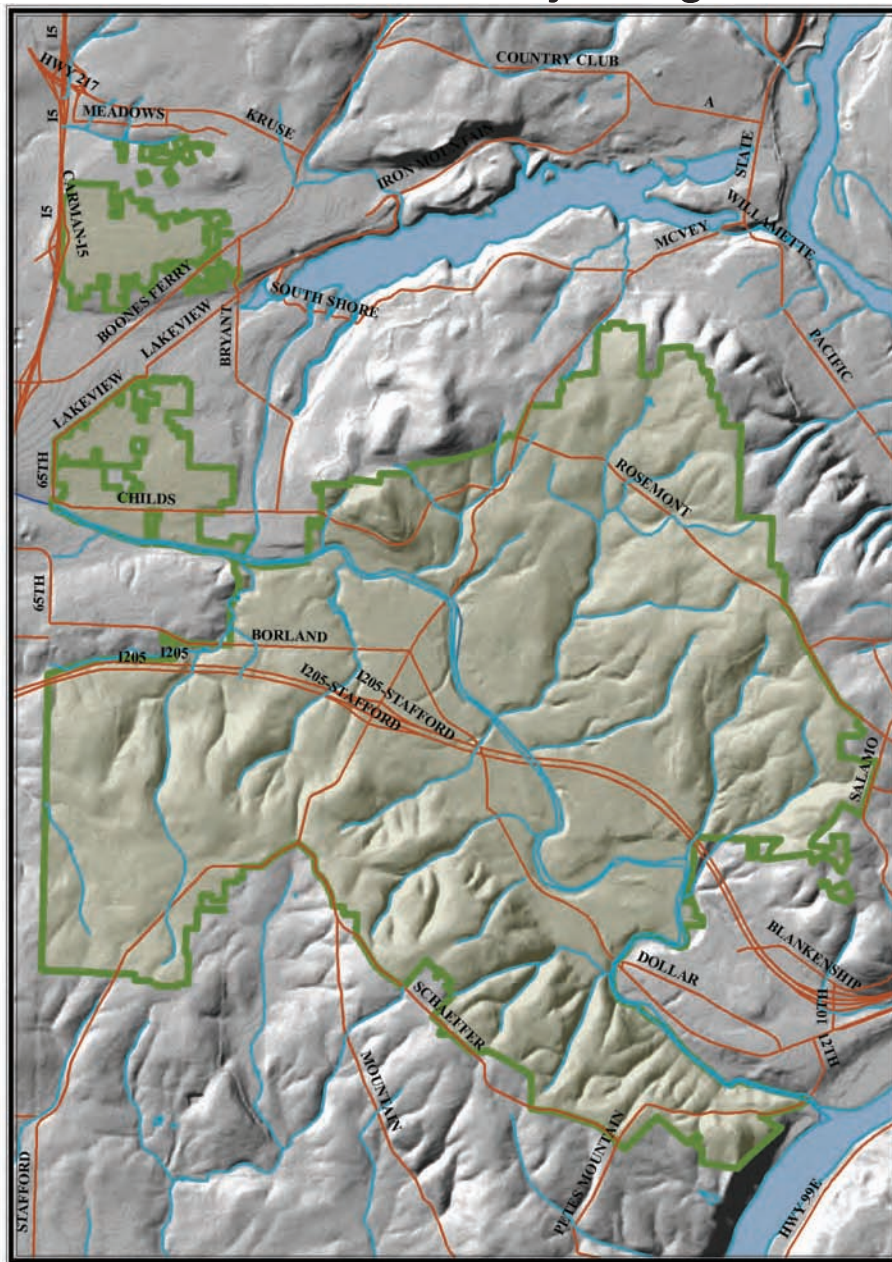
Surface Water Management Agency of Clackamas County

(A Component Unit of Clackamas County, Oregon)

Audited Financial Report

For the year ended June 30, 2008

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, 2008 and 2007

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
2051 Kaen Rd
Oregon City, Oregon 97045

COMMISSIONERS AS OF JUNE 30, 2008

| <u>Name</u> | <u>Term Expires</u> |
|---|---------------------|
| Lynn Peterson, Chair 555 G. Avenue Lake Oswego, Oregon 97034 | December 31, 2010 |
| Martha Schrader, Commissioner 2525 N. Baker Canby, Oregon 97068 | December 31, 2008 |
| Bill Kennemer, Commissioner 21041 S. Hwy. 99E Oregon City, Oregon 97045 | December 31, 2008 |

ADMINISTRATIVE OFFICES

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

DISTRICT ADMINISTRATOR

Jonathan A. Mantay
2051 Kaen Road
Oregon City, Oregon 97045

REGISTERED AGENT

Michael S. Kuenzi, Director
150 Beaver creek 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

December 16, 2008

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

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, 2008 and 2007, 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 audits 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency as of June 30, 2008 and 2007, and the respective 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 December 16, 2008, 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

INDEPENDENT AUDITOR'S REPORT (Continued)

Board of County Commissioners of
Clackamas County, Oregon as Governing Body of
Surface Water Management Agency of Clackamas County
December 16, 2008
Page 2

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.

Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the 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 financial statements that collectively comprise the Agency's 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, 2008

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, 2008. 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 \$273 (net assets). Of this amount, \$187 (unrestricted net assets) may be used to meet our ongoing obligations of providing surface water management services.
- The Agency's total assets decreased slightly to \$300 from \$301 from last fiscal year and are \$35 lower than two fiscal years ago. This year's decrease resulted from a decrease in accounts receivable, though this was largely offset by an increase in the total of our cash and cash equivalents due to operating expenses that were higher than operating revenues during the fiscal year.
- Liabilities increased by \$21 from last fiscal year and are \$11 higher than two fiscal years ago as a result of a greater number of payment requests being received after the end of the last fiscal year.
- Total net assets decreased slightly from last fiscal year and are also lower than two fiscal years ago. Operating expenses increased 4.6% or \$9 from the prior year, primarily due to increases in professional services and other expenses. Operating expenses are higher than two fiscal years ago as well, as a result of higher professional services and other expenses. Surface water management charges increased slightly compared to the previous fiscal year. Other operating revenue increased \$11 due to an increase in the plan review fee charged to new development.

Net Assets

| | 2008 | 2007 | 2006 |
|---|--------|--------|--------|
| Current and other assets | \$ 214 | \$ 213 | \$ 245 |
| Capital assets | 86 | 88 | 90 |
| Total assets | 300 | 301 | 335 |
| Current liabilities | 27 | 6 | 16 |
| Invested in capital assets, net of related debt | 86 | 88 | 90 |
| Unrestricted | 187 | 207 | 229 |
| Total net assets, end of period | \$ 273 | \$ 295 | \$ 319 |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2008

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. 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 slightly from the prior fiscal year, up from \$155 last fiscal year yet down from \$158 for the previous fiscal year to \$156 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 less cash available for investments. Nonoperating revenue is also down from two fiscal years ago.

Operating expenses as a whole increased \$9 or 4.5%. Professional expenses and other expenses increased as a result of enhanced services provided to customers.

The overall result was a decrease in net assets of \$22.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2008

Changes in Net Assets

| | 2008 | 2007 | 2006 |
|----------------------------------|--------|--------|--------|
| Operating revenues: | | | |
| Surface water management charges | \$ 156 | \$ 155 | \$ 158 |
| Other | 22 | 11 | 9 |
| Total operating revenue | 178 | 166 | 167 |
| Operating expenses: | | | |
| Contracted salaries and benefits | 98 | 109 | 91 |
| Laboratory services | 14 | 24 | 23 |
| Supplies | 6 | 6 | 5 |
| Other County services | 16 | 20 | 26 |
| Professional services | 38 | 13 | 10 |
| Other expenses | 35 | 26 | 21 |
| Depreciation | 2 | 2 | 2 |
| Total operating expenses | 209 | 200 | 178 |
| Operating loss | (31) | (34) | (11) |
| Nonoperating revenue: | | | |
| Interest income | 9 | 10 | 12 |
| Change in net assets | (22) | (24) | 1 |
| Net assets - beginning of period | 295 | 319 | 318 |
| Net assets - end of period | \$ 273 | \$ 295 | \$ 319 |

Capital Assets

The Agency's capital assets decreased from \$88 in 2007 to \$86 in 2008 as a result of depreciation. Detail information may be found in Note 2 in the Notes to Basic Financial Statements.

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.

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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, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|----------------------------|-------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 200,867 | \$ 166,499 |
| Accounts receivable | 11,002 | 46,618 |
| Interest receivable | 891 | 531 |
| Prepaid expenses | <u>1,733</u> | <u>8</u> |
| Total current assets | 214,493 | 213,656 |
| Capital assets, net | <u>85,966</u> | <u>88,233</u> |
| Total assets | <u>300,459</u> | <u>301,889</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 27,417 | 6,433 |
| Other liabilities | <u>10</u> | <u>-</u> |
| Total current liabilities | <u>27,427</u> | <u>6,433</u> |
| NET ASSETS | | |
| Invested in capital assets | 85,966 | 88,233 |
| Unrestricted | <u>187,066</u> | <u>207,223</u> |
| Total Net Assets | <u>\$ 273,032</u> | <u>\$ 295,456</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, 2008 and 2007

| | 2008 | 2007 |
|----------------------------------|------------|------------|
| Operating revenues: | | |
| Surface water management charges | \$ 155,492 | \$ 155,369 |
| Other operating revenues | 22,311 | 11,127 |
| Total operating revenues | 177,803 | 166,496 |
| Operating expenses: | | |
| Contracted salaries and benefits | 98,441 | 108,667 |
| Laboratory services | 13,499 | 24,418 |
| Supplies | 5,610 | 5,729 |
| Other County services | 16,304 | 20,400 |
| Professional services | 38,382 | 13,163 |
| Vehicle expenses | 2,768 | 4,725 |
| Repairs and maintenance | 249 | 40 |
| Other expenses | 31,955 | 20,826 |
| Depreciation | 2,267 | 2,267 |
| Total operating expenses | 209,475 | 200,235 |
| Operating loss | (31,672) | (33,739) |
| Nonoperating revenue: | | |
| Interest income | 9,248 | 10,107 |
| Change in net assets | (22,424) | (23,632) |
| Net assets, beginning of year | 295,456 | 319,088 |
| Net assets, end of year | \$ 273,032 | \$ 295,456 |

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, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Received from customers | \$ 191,108 | \$ 120,389 |
| Payments to suppliers and related entities for goods and services | (187,939) | (205,950) |
| Other operating revenue | <u>22,311</u> | <u>11,127</u> |
| Net cash from operating activities | 25,480 | (74,434) |
| Cash flows from investing activities: | | |
| Interest received | <u>8,888</u> | <u>10,972</u> |
| Net increase (decrease) in cash and cash equivalents | 34,368 | (63,462) |
| Cash and cash equivalents, beginning of year | <u>166,499</u> | <u>229,961</u> |
| Cash and cash equivalents, end of year | <u>\$ 200,867</u> | <u>\$ 166,499</u> |
| Reconciliation of operating loss to net cash from operating activities: | | |
| Operating loss | \$ <u>(31,672)</u> | \$ <u>(33,739)</u> |
| Adjustments to reconcile operating loss to net cash from operating activities: | | |
| Depreciation | 2,267 | 2,267 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 35,616 | (34,979) |
| Decrease (increase) in prepaid expenses | (1,725) | 1,726 |
| Increase (decrease) in accounts payable | 20,984 | (9,709) |
| Increase in other liabilities | <u>10</u> | <u>-</u> |
| Total adjustments | <u>57,152</u> | <u>(40,695)</u> |
| Net cash from operating activities | <u>\$ 25,480</u> | <u>\$ (74,434)</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)

NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2008 AND 2007

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, 2008.

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.

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 at the principal object level – materials and services, reserve for capital improvement, capital outlay, debt service, operating contingencies, other and operating transfers category level are the levels of

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

NOTES TO BASIC FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2008 AND 2007

1. Summary of Significant Accounting Policies, Continued:

Budgets, Continued:

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, 2008. All annual appropriations lapse at fiscal year end.

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 after November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

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.

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 Comprehensive Annual Financial Report for the year ended June 30, 2008 for compliance with Oregon Revised Statutes relating to the collateralization of deposits and categorization of investments and disclosures related to GASB #3, #31 and #40.

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

NOTES TO BASIC FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2008 AND 2007

1. Summary of Significant Accounting Policies, Continued:

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.

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 five years.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS, Continued
YEARS ENDED JUNE 30, 2008 AND 2007

1. Summary of Significant Accounting Policies, Continued:

Risk Management, Continued:

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.

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, 2008 AND 2007

2. Capital Assets:

Changes in capital assets for the years ended June 30, 2008 and 2007 are as follows:

| | 2008 | | |
|--------------------------|-------------------------|------------|--------------------------|
| | Balance July 1, 2007 | Additions | Balance June 30, 2008 |
| Collection plant | \$ 131,633 | \$ - | \$ 131,633 |
| Equipment | 10,304 | - | 10,304 |
| Total | 141,937 | - | 141,937 |
| Accumulated depreciation | (53,704) | (2,267) | (55,971) |
| Capital assets, net | \$ 88,233 | \$ (2,267) | \$ 85,966 |
| | 2007 | | |
| | Balance July 1, 2006 | Additions | Balance June 30, 2007 |
| Collection plant | \$ 131,633 | \$ - | \$ 131,633 |
| Equipment | 10,304 | - | 10,304 |
| Total | 141,937 | - | 141,937 |
| Accumulated depreciation | (51,437) | (2,267) | (53,704) |
| Capital assets, net | \$ 90,500 | \$ (2,267) | \$ 88,233 |

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 \$128,244 and, \$153,485 in fiscal 2008 and 2007, respectively. At June 30, 2008 and 2007, the Agency was obligated to Clackamas County for \$3,031 and \$4,150 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, 2008 AND 2007

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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Compliance Reports



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, 2008
(with comparative totals for the year ended June 30, 2007)

| | 2008 | | | | 2007 |
|---|---------------------------------|-------------|---|----|----------|
| | Original And Final Budget | Actual | Variance with Final Budget Positive (Negative) | | Actual |
| REVENUES: | | | | | |
| Surface water management charges | \$ 158,000 | \$ 191,285 | \$ 33,285 | \$ | 120,442 |
| Interest earnings | 7,402 | 8,887 | 1,485 | | 10,972 |
| Miscellaneous income | 10,000 | 22,135 | 12,135 | | 11,074 |
| Total revenues | 175,402 | 222,307 | 46,905 | | 142,488 |
| BEGINNING FUND BALANCE AVAILABLE FOR APPROPRIATION | | | | | |
| | 197,374 | 154,869 | (42,505) | | 210,348 |
| | \$ 372,776 | \$ 377,176 | \$ 4,400 | \$ | 352,836 |
| EXPENDITURES: | | | | | |
| Materials and services | \$ 253,714 | \$ 207,208 | \$ 46,506 | \$ | 197,967 |
| Contingency | 25,371 | - | 25,371 | | - |
| Total expenditures | 279,085 | \$ 207,208 | \$ 71,877 | \$ | 197,967 |
| ENDING FUND BALANCE AVAILABLE FOR APPROPRIATION | | | | | |
| | 93,691 | | | | |
| | \$ 372,776 | | | | |
| Reconciliation of revenues and expenditures to change in net assets: | | | | | |
| Revenues | | \$ 222,307 | | \$ | 142,488 |
| Expenditures | | 207,208 | | \$ | 197,967 |
| Revenues over (under) expenditures | | 15,099 | | | (55,479) |
| Increase (decrease) in accounts receivable | | (35,616) | | | 34,979 |
| Depreciation | | (2,267) | | | (2,267) |
| Increase (decrease) in interest receivable | | 360 | | | (865) |
| Change in net assets | | \$ (22,424) | | \$ | (23,632) |

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Supplementary Information





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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**

December 16, 2008

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

We have audited the basic financial statements of Surface Water Management of Clackamas County (the Agency), as of and for the year ended June 30, 2008, and have issued our report thereon dated December 16, 2008. 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 opinion 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

**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**

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INTERNAL CONTROL OVER FINANCIAL REPORTING (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Agency's basic 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of the 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, Kowala & Warwick LLP

Certified Public Accountants

**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, and comments and disclosures required in audit reports. The required statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth in the following pages.

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AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

December 16, 2008

Board of County Commissioners of
Clackamas County, Oregon as Governing Body 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 year ended June 30, 2008, and have issued our report thereon dated December 16, 2008. 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

Our reporting relating to internal control over financial reporting is contained on pages 16 and 17 of this report.

ADEQUACY OF ACCOUNTING RECORDS

We found the Agency's accounting records to be adequate for audit purposes.

ADEQUACY OF COLLATERAL SECURING DEPOSITORY BALANCES

Oregon Revised Statutes Chapter 295 requires that each depository throughout the period of its possession of public fund deposits shall maintain on deposit with its custodians, at its own expense, securities having a value not less than 25% of the certificates of participation issued by the pool manager for funds in excess of those insured by the Federal Deposit Insurance Corporation. Reference should be made to the Clackamas County Comprehensive Annual Financial Report for the year ended June 30, 2008 for compliance relating to collateralization.

INVESTMENTS

Reference should be made to the Clackamas County Comprehensive Annual Financial Report for the year ended June 30, 2008 for compliance with ORS 294 as it pertains to investment of public funds.

**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

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LEGAL REQUIREMENTS RELATING TO DEBT

The Agency did not issue or have outstanding debt during the year ended June 30, 2008, therefore, compliance with the legal requirement pertaining to debt is not applicable to the Agency.

BUDGET COMPLIANCE

The Agency appears to have complied with Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption and execution of its budget for the year ended June 30, 2008, and the preparation and adoption of its budget for the year ending June 30, 2009.

A description of the budgeting process is included in the Notes to Basic Financial Statements.

INSURANCE POLICIES AND FIDELITY BONDS

We have reviewed the Agency's insurance and fidelity bond coverage at June 30, 2008. We ascertained that such policies appeared to be in force and in compliance with legal requirements relating to insurance and fidelity bond coverage. We are not competent by training to comment on the adequacy of the insurance policies covering Agency property at June 30, 2008.

PUBLIC CONTRACTS

The Agency's procedures for awarding public contracts were reviewed and found to be in accordance with ORS Chapter 279.

OTHER

Compliance with the following *Minimum Standards for Oregon Municipal Corporations* is not applicable to the Agency:

- Programs funded from outside sources.
- Financial reporting requirements.
- Use of Highway funds.

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This report is intended solely for the information and use of the Board of County Commissioners, management and the Oregon Secretary of State Audits Division, 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

By 
Timothy R. Gillette, Partner

