

ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the fiscal years ended June 30, 2025 and 2024

Water Environment Services

(A Component Unit of Clackamas County, Oregon)



CLACKAMAS
WATER
ENVIRONMENT
SERVICES

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)

ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the fiscal years ended June 30, 2025 and 2024

Prepared by:
WATER ENVIRONMENT SERVICES
Financial Management Program

Ron Wierenga, Assistant Director
Erin Blue, Finance Manager

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)

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(A Component Unit of Clackamas County, Oregon)

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Introductory Section

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)

GOVERNING BODY UNDER ORS 190.010
BOARD OF COUNTY COMMISSIONERS
CLACKAMAS COUNTY, OREGON
Public Services Building
2051 Kaen Road
Oregon City, Oregon 97045

COMMISSIONERS AS OF JUNE 30, 2025

<u>Name</u>	<u>Term Expires</u>
Craig Roberts, Chair Public Services Building	December 31, 2028
Diana Helm, Commissioner Public Services Building	December 31, 2026
Paul Savas, Commissioner Public Services Building	December 31, 2027
Martha Schrader, Commissioner Public Services Building	December 31, 2028
Ben West, Commissioner Public Services Building	December 31, 2026

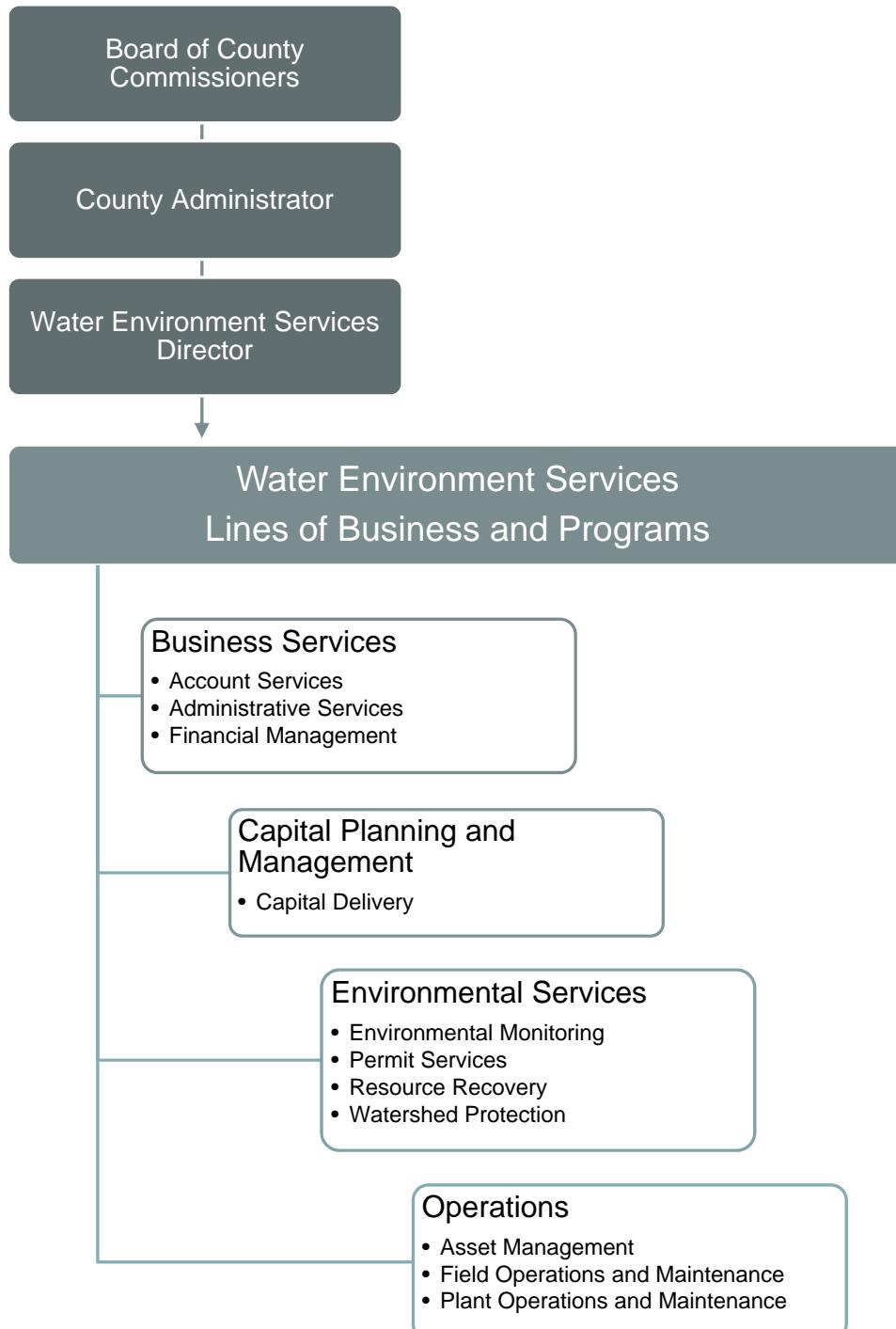
ADMINISTRATIVE OFFICES

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

DISTRICT ADMINISTRATOR
Gary Schmidt
2051 Kaen Road
Oregon City, Oregon 97045

REGISTERED AGENT
Greg Geist
150 Beavercreek Road
Oregon City, Oregon 97045

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
FY 2025





CLACKAMAS

WATER
ENVIRONMENT
SERVICES

GREGORY L. GEIST | DIRECTOR

Water Quality Protection
Surface Water Management
Wastewater Collection & Treatment

November 20, 2025

Board of County Commissioners of Clackamas
County, Oregon, as the Governing Body of
Water Environment Services
Oregon City, Oregon

To Clackamas County Board of County Commissioners, Citizens and Customers:

The Annual Comprehensive Financial Report for Water Environment Services (WES), an ORS 190 intergovernmental entity (also a Component Unit of Clackamas County, Oregon) for the year ended June 30, 2025, is submitted herewith. This report was prepared by the Financial Management Program of WES, in accordance with the financial reporting provisions of Oregon Revised Statutes (ORS) Sections 297.405 through 297.555. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentations, including all disclosures, rests with WES. We believe the data is accurate and complete in all material respects and fairly presents the financial position, results of operations and cash flows of WES as of June 30, 2025, and for the year then ended.

WES' management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of WES 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 its expected benefits; and (2) assessing costs and benefits requires management's estimates and judgment.

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

Board of County Commissioners of Clackamas
County, Oregon, as the Governing Body of
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Independent Audit

The provisions of ORS Sections 297.405 through 297.555, known as Oregon Municipal Audit Law, require that an independent audit of WES' records be made within six months following the close of the fiscal year.

The accounting firm of Baker Tilly US, LLP was selected to perform the audit for the years ended June 30, 2025 and 2024. The Report of Independent Auditors for WES' financial statements is located at the beginning of the Financial Section of this report.

Water Environment Services Profile

WES is an intergovernmental entity created in November 2016 through an Oregon Revised Statute (ORS) 190 agreement (the Agreement) between Clackamas County Service District No. 1 (CCSD No. 1) (sewer and surface water management) and the Tri-City Service District (TCSD) (sewer services). The Agreement was amended in May of 2017 to also include the Surface Water Management Agency of Clackamas County (SWMACC) (surface water management). Each of CCSD No. 1, SWMACC and TCSD are separate legal entities organized under the provisions of ORS Chapter 451. This enabling legislation established County service districts as independent municipal corporations authorized to provide a specific service within specified boundaries. These entities jointly partnered in the delivery of services to customers by forming WES. On July 1, 2017, the assets and operations of TCSD and SWMACC were transferred into WES; CCSD No. 1 was transferred on July 1, 2018. WES functions as a single, combined entity formed by the three original districts. Prior to fiscal year (FY) 2018, each of these were separate legal entities and therefore audited financial statements were prepared for each. From FY 2019 and forward, audited financial statements are prepared for WES only.

As specified by ORS 451 and the Agreement, the governing body for WES is the Board of County Commissioners of Clackamas County, Oregon, and the County Administrator serves as the Administrator of the intergovernmental entity. As a separate legal entity, the operations, assets and budgetary authority of WES are maintained separately from those of Clackamas County. However, under the criteria of the Governmental Accounting Standards Board, WES is considered a component unit of Clackamas County, Oregon.

The Agreement and related empowering bylaws establish an advisory committee to advise WES on decisions regarding capital improvement programs, annual budgets, financial planning, and long-term financing plans for the entire partnership.

WES was formed in order to provide long-term certainty and stability for the sanitary sewer and surface water customers in the three partner service districts.

Board of County Commissioners of Clackamas
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WES provides retail sanitary sewer services (administration, operation, and maintenance of the collection and conveyance systems including pipes and pump stations), to the cities of Boring and Happy Valley, to unincorporated portions of North Clackamas County, a portion of the former city of Damascus, the communities of the Highway 26 Hoodland Recreational Corridor including Wemme and Welches, Fischer's Forest Park near Redland, and a small retail population outside of Oregon City. WES provides wholesale sanitary sewer services (operation and maintenance of the regional collection system and Water Resource Recovery Facilities (WRRFs) that treat and clean wastewater and return it to the rivers and streams) to the cities of Gladstone, Johnson City, Milwaukie, Oregon City, and West Linn. Revenues derived from customer rates and development fees fund WES services. WES operates five wastewater treatment facilities: Tri-City Water Resource Recovery Facility (Tri-City WRRF), Kellogg Creek Water Resource Recovery Facility (Kellogg Creek WRRF), Hoodland Water Resource Recovery Facility (Hoodland WRRF), Boring Water Resource Recovery Facility (Boring WRRF), and Fischer's Forest Park Water Resource Recovery Facility (Fischer's Forest Park WRRF).

WES performs surface water and stormwater management for the purpose of providing nonpoint source pollution controls to meet state and federal regulations. This includes the construction of capital improvements to address surface water quality and quantity, conducting basin analyses and other studies to identify and prioritize necessary capital projects, and implementing non-structural solutions such as maintenance of surface water facilities, public education, water quality monitoring programs, and preparation of intergovernmental agreements to support a regional approach to surface water management.

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.

Local Economy

As described above, WES is located in Clackamas County, Oregon. Clackamas County encompasses an area of approximately 1,883 square miles, and according to the most recent demographic data, has a population of approximately 426 thousand as of July 2024. WES' service area is a subset of the County encompassing approximately 66 square miles with an estimated service area population of approximately 199 thousand. Clackamas County's unemployment rate as of June 2025 was 4.9%, an increase of 1.2% from the unemployment rate in June 2024, and a decrease from a high of 11.2% in 2020.

Board of County Commissioners of Clackamas
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In December 2022, the consulting agency FCS Group completed a population growth forecast for WES, projecting an average annual growth rate of 1.0% through FY 2027-28. Although growth was slightly lower in FYs 2023-24 and 2024-25, the longer-term growth trend remains consistent with the study's projections. This forecast continues to guide WES' capital and financial planning efforts.

Long-term Planning and Major Initiatives

Similar to clean water agencies throughout the US region, WES is facing a number of challenges, including: investing in the renewal and replacement of aging infrastructure; constructing sufficient treatment and conveyance capacity to meet the anticipated demand for services; maintaining affordable service rates while meeting financial needs; and responding to an evolving workforce environment.

WES' 2025 Strategic Plan, which is built around the seven key strategies outlined below, was designed to address current challenges and position WES for future success. Many of the initiatives in the current plan have been completed or are on track for completion by the end of the current fiscal year. As a result, the plan will be reviewed and updated during FY 2025-26 to include new initiatives and refine performance targets.

No.	Strategy	Description
1	Workforce Planning and Development	We build an organization and work culture that attracts, retains, develops, engages, and invests in a high performing workforce to achieve our vision, mission, and support our values.
2	Utility Operations and Environmental Protection	We effectively manage wastewater and stormwater systems to meet or surpass environmental, safety, and public health standards, to recover resources and to protect watersheds.
3	Asset Management	We proactively invest in and maintain WES' infrastructure assets to ensure the cost-effective, sustainable delivery of reliable, high quality, and efficient clean water services.
4	Capital Planning and Delivery	We strategically plan and upgrade WES' infrastructure to ensure the sustainable delivery of reliable, high quality, and climate-resilient clean water services that support the growth and vitality of our communities, natural environment, and economy.
5	Financial Viability	We manage WES' financial resources to meet present and future funding needs, and to maintain fair, reasonable, and equitable rates that demonstrate fiscal responsibility.
6	Customer Satisfaction	We provide reliable, responsive customer service that aligns with our communities' values and the expressed needs of our customers.
7	Stakeholder Support	We are committed to building collaborative partnerships that result in a resilient clean water future, where all people benefit and rivers thrive, through proactive engagement, effective communication, public education, and community leadership.

Board of County Commissioners of Clackamas
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In addition to its strategic plan, WES has developed a comprehensive wastewater master plan that outlines capital needs over the next 20 years, and a storm system master plan that provides short- and medium-term recommendations for capital and programmatic improvements. These master plans serve as the foundation for the currently adopted Capital Improvement Plan (CIP) for FY 2025/26 – 2029/30, which projects approximately \$244 million in capital investments over this five-year period. Successfully achieving this level of investment depends on external factors such as growth rates, regional economic conditions, supply chain stability, regulatory requirements, and the availability of skilled personnel and construction expertise. To the extent these variables are within WES' control, we anticipate being able to complete the identified projects.

WES' long-range financial planning is focused on meeting the capital investment needs outlined in the CIP while ensuring adequate resources for ongoing operations and maintenance. A key objective of this planning is to establish a rate structure that keeps future rate increases steady, predictable, and affordable, while sustaining services and funding capital improvements. This approach, along with careful financial management over the past several years, has allowed WES to fund capital improvements and meet operational needs with an average combined annual residential wastewater and surface water service rate increase of approximately 3.1%.

GFOA Certificate of Achievement for Excellence in Financial Reporting

Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to WES for its annual comprehensive financial report for the fiscal year ended June 30, 2024. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current annual comprehensive financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate. To that end, we will advise the WES Board of the results of the GFOA's review of our report.

GFOA Distinguished Budget Presentation Award

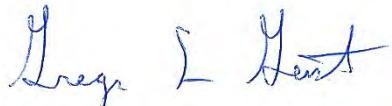
WES received the GFOA's Distinguished Budget Presentation Award for its annual budget for the 2024-25 fiscal year. In order to receive this award, the budget document must meet program criteria as a policy document, as a financial plan, as an operations guide, and as a communications device.

Board of County Commissioners of Clackamas
County, Oregon, as the Governing Body of
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Oregon City, Oregon

Acknowledgments

We wish to express our appreciation to the entire WES staff for their dedicated efforts and contributions to our annual report. Our appreciation is especially extended to the team members of WES' Financial Management Program, who work diligently year-round to maintain accurate and timely financial records, and demonstrate fiscal responsibility to our customers and stakeholders. This effort is crucial to the success of the organization as we fulfill our mission of protecting public health and supporting the vitality of our communities, natural environment, and economy.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Greg S. Geist".

Greg Geist
Director, WES



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

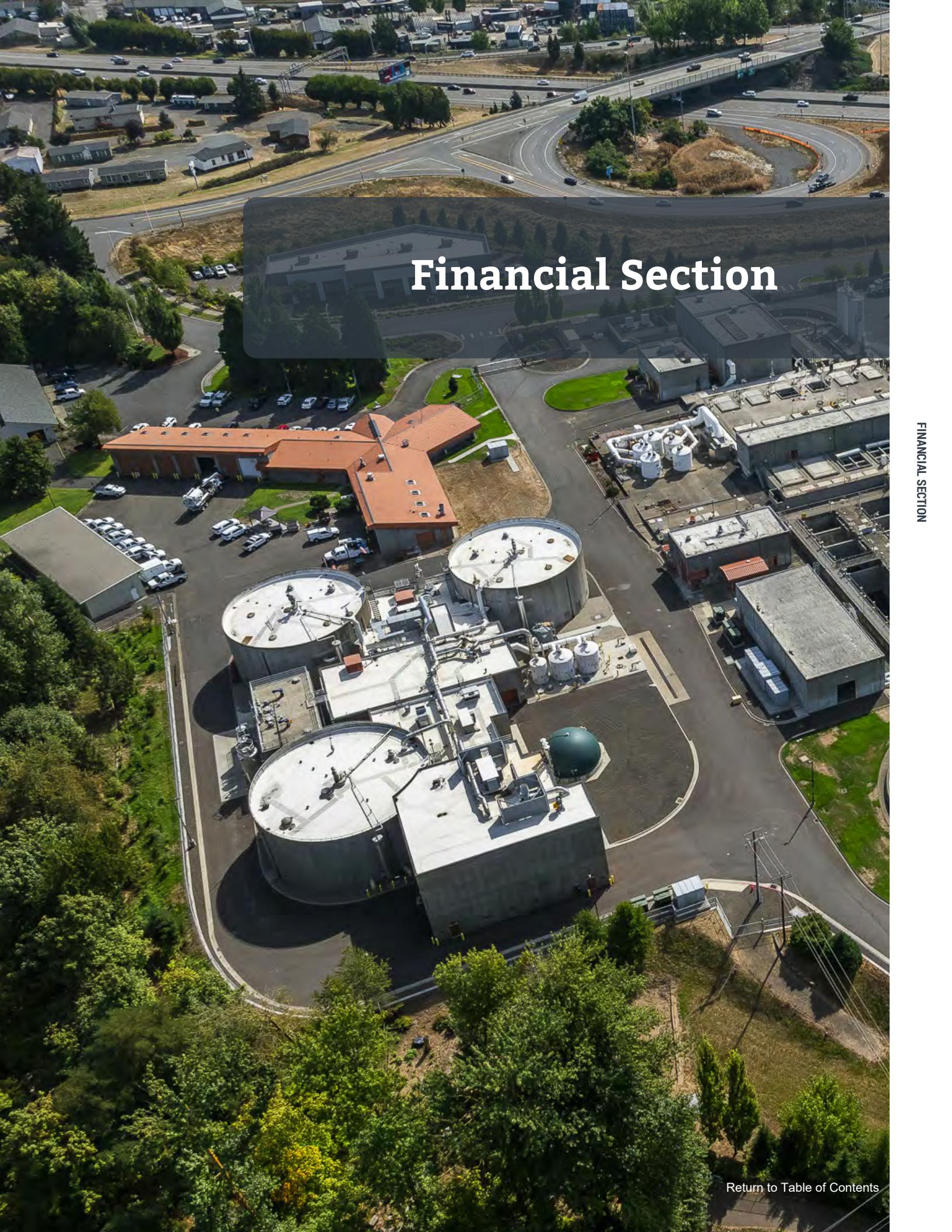
**Water Environment Services
Oregon**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2024

Christopher P. Monell

Executive Director/CEO



Financial Section

Report of Independent Auditors

Board of County Commissioners of
Clackamas County, Oregon, as Governing Body of
Water Environment Services
Oregon City, Oregon

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, which comprise the statements of net position as of June 30, 2025 and 2024, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise WES' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Water Environment Services as of June 30, 2025 and 2024, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of WES and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about WES' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WES' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about WES' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Water Environment Services' 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information referred to above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

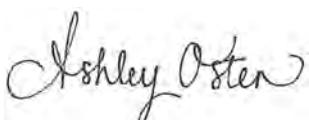
In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2025, on our consideration of Water Environment Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Water Environment Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Water Environment Services' internal control over financial reporting and compliance.

Other Reporting Required by Minimum Standards for Audits of Oregon Municipal Corporations

In accordance with the *Minimum Standards for Audits of Oregon Municipal Corporations*, we have also issued our report dated November 20, 2025, on our consideration of WES' compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-010-0000 through 162-010-0330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Ashley Osten, Principal, for
Baker Tilly US, LLP
Portland, Oregon
November 20, 2025

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2025

As management of Water Environment Services (WES), we offer readers of our financial statements this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2025. We encourage readers to consider the information presented here in conjunction with the Basic Financial Statements, the Notes to the Basic Financial Statements, and the additional information contained in the Letter of Transmittal. All dollar amounts, unless otherwise indicated, are expressed in thousands.

Financial Highlights

- WES' assets exceeded its liabilities and deferred inflows of resources (also defined as net position) at the close of the fiscal year (FY) by \$308,119. This amount reflects an increase of \$18,848 or 6.5% from FY 2024 and \$39,289 or 14.6% since FY 2023. For the fiscal year ended June 30, 2025, total net position of \$308,119 includes unrestricted net position of \$105,004 that may be used to meet our ongoing obligations of providing wastewater collection and treatment, and surface water management services.
- Total net position in FY 2025 increased \$18,848 primarily due to system development charge revenues and capital contributions from developers, as well as increases in operating revenues, and in interest income. Total net position increased \$20,441 in FY 2024 from FY 2023.
- WES' total assets increased by \$14,829 to \$465,245 in FY 2025 from \$450,416 in FY 2024. In FY 2024, total assets increased by \$16,705 from \$433,711 in FY 2023. The change from FY 2024 includes a decrease in current assets of \$20,393, a decrease in other assets, net, of \$93, a decrease in restricted noncurrent assets of \$17,208, and an increase in capital assets, net, of \$52,523.
- Total liabilities and deferred inflows of resources decreased by \$4,019 to \$157,126 in FY 2025, primarily due to principal payments on long-term debt, which were partially offset by higher outstanding payables at fiscal year-end. Total liabilities and deferred inflows of resources decreased \$3,736 in FY 2024 from FY 2023.
- Total operating revenues increased by \$1,879 over FY 2024 and total operating expenses increased by \$4,338. These combined changes resulted in a decrease in operating income of \$2,459. From FY 2023 to FY 2024, total operating revenues increased by \$2,489 and total operating expenses decreased by \$108.
- In FY 2025, nonoperating revenues increased \$1,801 and nonoperating expenses decreased \$1,343. From FY 2023 to FY 2024, nonoperating revenues increased by \$2,554 and nonoperating expenses increased by \$879.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to WES' basic financial statements. These statements consist of the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows along with the Notes to the Basic Financial Statements. Included and complementing these statements and notes is other Supplementary Information, which provides budgetary comparisons.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fiscal Year Ended June 30, 2025

Overview of the Financial Statements (Continued)

The Statements of Net Position present information on all of WES' assets, liabilities, and deferred outflows/inflows of resources, with the net difference between these components reported as net position. Over time, changes in net position may serve as a useful indicator of whether WES' financial position is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Position present information related to increases and decreases in total net position. 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 present cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

The basic financial statements can be found on pages 14 through 18 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide statements. The Notes to the Basic Financial Statements can be found on pages 19 through 40 of this report.

In addition to the basic financial statements and accompanying notes, this report also provides budgetary comparisons in other Supplementary Information, beginning on page 41.

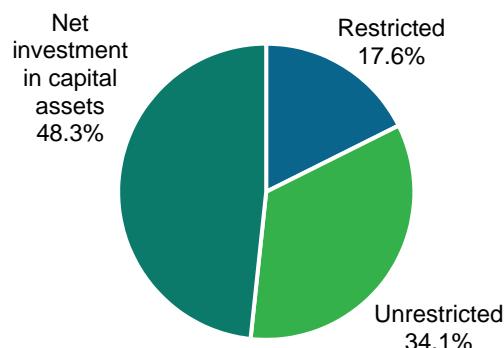
Financial Analysis

As noted earlier, net position may serve as a useful indicator of financial position. In the case of WES, assets exceeded liabilities and deferred inflows of resources by \$308,119 at the close of FY 2025.

Of WES' total net position, 48.3% reflects its net investment in capital assets, consisting of treatment facilities, land, collection and conveyance systems, buildings, machinery and equipment, vehicles, construction work in progress and intangible assets, less any related outstanding debt that was used to acquire those assets. These assets are used to provide services to WES' customers; therefore this amount is not available for spending. Although WES' investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position accounts for 17.6% and represents resources that are subject to external restrictions on how they may be used. This component includes revenue bond proceeds, state loans, advance deposits for capital projects, and system development charges, and retainage held in escrow or separate interest-bearing accounts.

The remaining 34.1% of total net position is unrestricted. These items have no external restriction concerning their use or function and may be used to finance day-to-day operations.



WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fiscal Year Ended June 30, 2025

Financial Analysis (Continued)

The condensed statements below offer a comparison of assets, liabilities, deferred inflows of resources, and net position at June 30, 2025, 2024, and 2023:

Statements of Net Position

(In Thousands of Dollars)

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Current assets	\$ 108,931	\$ 129,324	\$ 144,595
Other assets, net	12,541	12,634	3,660
Noncurrent assets - restricted	42,856	60,064	60,246
Capital assets, net	<u>300,917</u>	<u>248,394</u>	<u>225,210</u>
Total assets	465,245	450,416	433,711
Current liabilities	27,969	20,536	17,505
Noncurrent liabilities	<u>129,049</u>	<u>140,500</u>	<u>147,195</u>
Total liabilities	157,018	161,036	164,700
Total deferred inflows of resources	108	109	181
Total liabilities and deferred inflows of resources	157,126	161,145	164,881
Net investment in capital assets	148,808	101,419	96,289
Restricted for capital projects	52,396	65,355	64,029
Restricted for debt service	1,911	6,029	6,484
Unrestricted	<u>105,004</u>	<u>116,468</u>	<u>102,028</u>
Total net position, end of year	\$ 308,119	\$ 289,271	\$ 268,830

Changes in net position are also attributed to changes in revenues and expenses as a result of operations, which is discussed in the next section.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fiscal Year Ended June 30, 2025

Financial Analysis (Continued)

The condensed statements below offer a comparison of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2025, 2024, and 2023:

Statements of Changes in Net Position

(In Thousands of Dollars)

	2025	2024	2023
Sanitary Sewer user charges	\$ 45,619	\$ 44,135	\$ 42,256
Surface Water user charges	6,821	6,440	6,034
Other operating revenues	1,731	1,717	1,513
Operating revenues	54,171	52,292	49,803
Interest income	7,861	6,377	4,749
Other	1,243	926	-
Nonoperating revenues	9,104	7,303	4,749
Total Revenues	63,275	59,595	54,552
Contracted salaries and benefits	17,416	15,567	13,952
Materials and services	31,326	28,837	30,561
Operating expenses	48,742	44,404	44,513
Interest expense	2,637	2,872	3,125
Other	158	1,266	134
Nonoperating expenses	2,795	4,138	3,259
Total expenses	51,537	48,542	47,772
Income before contributions	11,738	11,053	6,780
Contributions	7,110	9,388	9,655
Change in net position	18,848	20,441	16,435
Net position - beginning of year	289,271	268,830	252,395
Net position - end of year	\$ 308,119	\$ 289,271	\$ 268,830

As shown in the schedule above, overall, WES' net position increased by \$18,848 or 6.5% in FY 2025 over FY 2024, and by \$20,441 or 7.6% in FY 2024 over FY 2023.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)

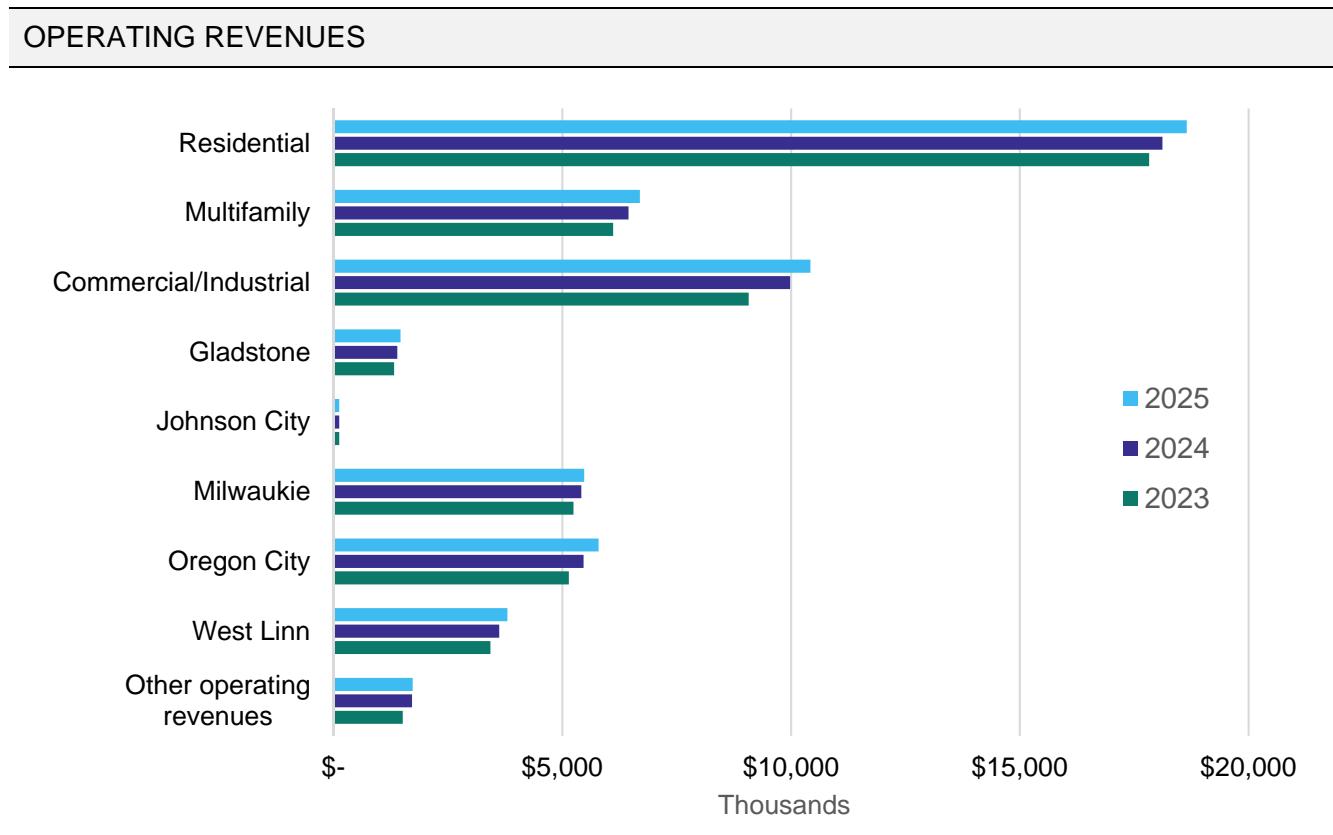
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fiscal Year Ended June 30, 2025

Financial Analysis (Continued)

In both FY 2025 and FY 2024, operating revenues exceeded operating expenses. Total operating revenues in FY 2025 increased \$1,879, or 3.6%, to \$54,171. Operating revenues in FY 2024 and FY 2023 were \$52,292 and \$49,803, respectively. Revenue from sanitary sewer user charges increased \$1,484 or 3.4%, and revenues from surface water user charges increased \$381 or 5.9%. These increases were due to monthly rate increases for FY 2025 that ranged from 0% to 5.1%, depending on the type of service, as well as customer growth in the service area.

In the chart below, sanitary sewer charges are reflected in the revenue from cities and portions of commercial/industrial, multifamily, and residential revenues, while surface water charges make up the remaining portions. Other operating revenues consist of permit and plan review fees, right-of-way (ROW) fees, lien search fees, and other minor revenue items.



WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fiscal Year Ended June 30, 2025

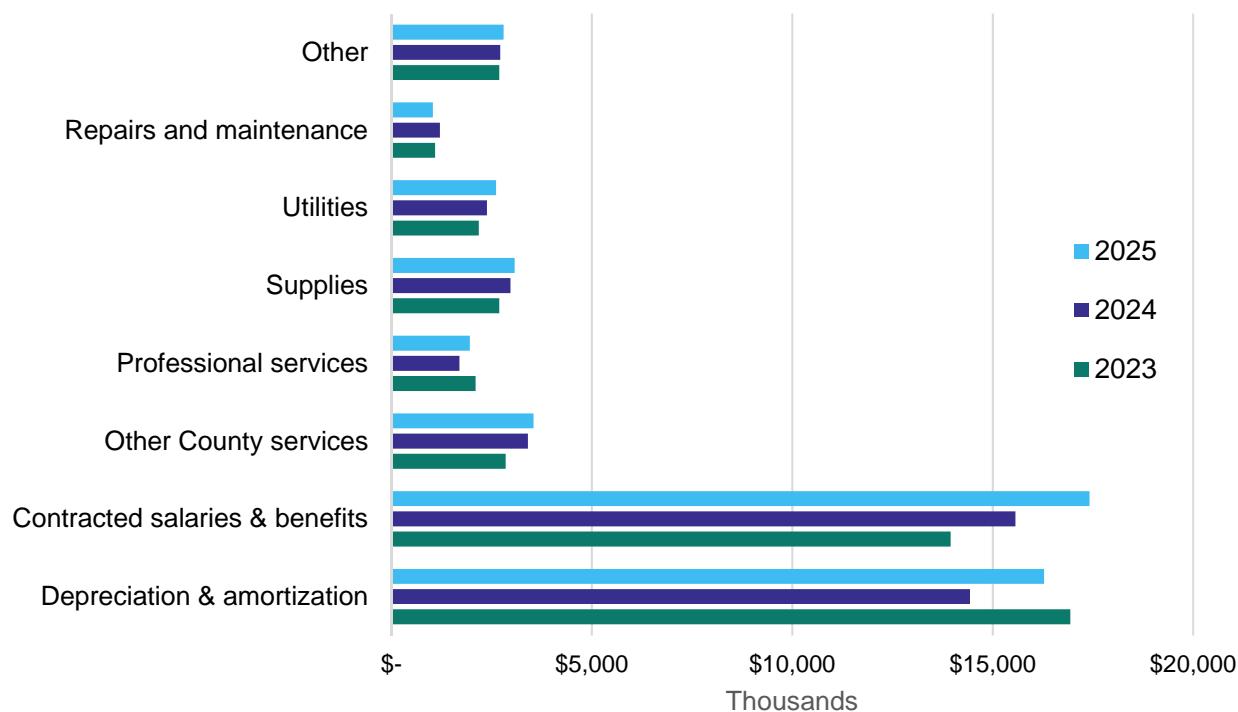
Financial Analysis (Continued)

Total operating expenses increased by \$4,338, or 9.8%, in FY 2025. This change resulted from increases in most operating expense categories, and was primarily driven by increases in depreciation and amortization expense, resulting from new assets being placed into service in the prior FY 2024, as well as increases in contracted salaries and benefits.

Contracted salaries and benefits rose by \$1,849, or 11.9%, due to reduced vacancy rates, cost-of-living adjustments, and salary adjustments resulting from market studies to maintain competitive salaries. Utility expenses increased by \$229, reflecting higher electricity costs and increased sewer costs for contracted wastewater treatment services in a portion of WES' service area. Other County services rose by \$140 due to higher costs for technology services and legal services.

Operating expenses decreased by \$109, or 0.2%, in FY 2024 from FY 2023 due mainly to decreases in depreciation and amortization expense, resulting from certain assets being fully depreciated in FY 2023, and reduced professional services expenses following the completion of one-time initiatives in the prior year.

OPERATING EXPENSES ⁽¹⁾



⁽¹⁾ Other includes laboratory services, vehicle expenses, insurance, and other minor expense items.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fiscal Year Ended June 30, 2025

Financial Analysis (Continued)

Total nonoperating revenues increased by \$1,801. This change was driven by higher investment earnings from increased interest rates and a year-end investment valuation adjustment, as well as federal grant revenue. Federal grant funding for FY 2025 included the recognition of \$1,118 from Coronavirus State and Local Fiscal Recovery Funds allocated to surface water capital projects as well as \$16 in FEMA funding.

Total nonoperating expenses decreased by \$1,343. FY 2024 nonoperating expenses were higher primarily due to a capital donation of wastewater collection infrastructure to WES' partner cities under the Regional Inflow and Infiltration (I&I) Reduction agreement. Further details regarding the Regional I&I Reduction agreement can be found in Note 12.

From FY 2023 to FY 2024, nonoperating revenues increased by \$2,554 and nonoperating expenses increased by \$879.

Contributions, which include system development charges for new connections and developer-donated infrastructure, decreased \$2,278, or 24.3%, in FY 2025. This change is due to a decrease in developer-donated infrastructure, partially offset by an increase in system development charge collections from higher residential and multifamily development activity during FY 2025.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2025, WES' investment in capital assets amounted to \$300,917, compared to \$248,394 as of June 30, 2024 (net of accumulated depreciation and amortization). Total additions to capital assets during FY 2025, before accounting for depreciation and amortization, were approximately \$69.0 million. These additions included \$67.3 million in construction work in progress, \$1.6 million in donated capital assets from developers, \$27 thousand in land and easements, and \$125 thousand in intangible right-to-use subscription assets.

During FY 2025, approximately \$12.2 million of construction work in progress was placed into service. Major projects placed into service during FY 2025 include the rehabilitation and upgrade of pump stations and ongoing rehabilitation of the primary clarifiers at the Tri-City Water Resource Recovery Facility.

The overall change in WES' capital assets for FY 2025 was \$52,523, or 21.1%, which included an increase of \$55,240 in land, easements, and construction in progress reflecting spending on several multi-year projects; an increase of \$11 in intangible assets, net, due to right-to-use subscription assets acquired in FY 2025; and a decrease of \$2,728 in plant and equipment, net, due to depreciation on assets placed into service during the prior FY 2024. From FY 2023 to FY 2024, capital assets increased by \$23,184.

Capital asset balances by asset category for FY 2025 and the two prior fiscal years are shown in the schedule on the following page.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fiscal Year Ended June 30, 2025

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

Capital Assets (net of depreciation and amortization)			
(In Thousands of Dollars)			
	2025	2024	2023
Land and easements	\$ 10,253	\$ 10,119	\$ 9,806
Construction in progress	89,358	34,252	23,053
Intangibles	23	22	30
Right-to-use subscription assets	434	424	246
Collection plant	99,890	101,398	100,227
Pumping plant	12,589	11,653	7,370
Treatment plant	72,513	74,750	67,832
General plant	<u>15,857</u>	<u>15,776</u>	<u>16,646</u>
Total	<u>\$ 300,917</u>	<u>\$ 248,394</u>	<u>\$ 225,210</u>

Additional information on WES' capital assets can be found in Note 5 beginning on page 28 of this report.

Debt

As of June 30, 2025, WES had total debt outstanding of \$136,888, compared to \$146,611 as of June 30, 2024 (net of unamortized premiums). Of the amount outstanding as of June 30, 2025, \$9,739 is due within one year.

The schedule below provides a summary of WES' outstanding debt at year-end. Sewer revenue obligations are reflected net of unamortized premiums as disclosed in the notes to the financial statements.

Outstanding Debt			
(In Thousands of Dollars)			
	2025	2024	2023
Sewer revenue obligations	\$ 101,705	\$ 110,158	\$ 118,256
State revolving fund loans	34,895	36,131	37,678
Subscription and lease liabilities	<u>288</u>	<u>322</u>	<u>137</u>
Total	<u>\$ 136,888</u>	<u>\$ 146,611</u>	<u>\$ 156,071</u>

Long-term debt decreased by \$9,723 in FY 2025 due to scheduled payments made on outstanding debt, partially offset by proceeds received from an Oregon Department of Environmental Quality (DEQ) State Revolving Fund (SRF) loan used to fund a surface water capital project.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fiscal Year Ended June 30, 2025

Capital Assets and Debt Administration (Continued)

Debt (Continued)

As of June 30, 2025, WES' outstanding debt includes: three SRF loans; a refunding issue of revenue obligations that refinanced the majority of three series of revenue obligations and one SRF loan; an original issue of revenue obligations; and five right-to-use software subscription contracts.

A portion of WES' 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 WES. The balance of the revenue bond and revenue obligation debt and the state revolving loans are payable through operating revenues and system development charges.

WES continues to maintain a "AAA" bond rating with S&P Global Ratings; this rating was originally obtained in May 2018 and was reaffirmed in February 2021.

Additional information on WES' long-term debt can be found in Notes 8 through 10 beginning on page 31 of this report.

Economic Factors and Next Year's Budget and Rates

In FY 2024-25, WES received approximately \$5.5 million in System Development Charge (SDC) revenue, reflecting an increase of \$1.2 million from FY 2023-24's total of \$4.3 million. While still below FY 2022-23's SDC revenue of \$6.9 million, the increase aligns with higher multi-family development activity during the fiscal year. SDCs are a key source of funding for capital construction projects to expand system capacity and can also be used to retire existing revenue bond debt. As a result of the new development, the sanitary sewer customer base grew by 0.7%, with approximately 597 new connections added.

In December 2022, FCS Group completed a population projection for WES' sanitary sewer service area, forecasting average annual growth of 1.0% through FY 2027-28. While development activity was slightly lower than the 1.0% projected during FYs 2023-24 and 2024-25, economists are projecting moderate improvement in residential development over the next year, supported by local initiatives encouraging higher density and affordable housing projects. Based on these projections, along with recent permitting trends indicating a shift to multi-family development, WES' budgeting and financial planning continues to assume a 1.0% growth rate.

WES' rate base generates sufficient revenue to cover operating expenses and fund future capital construction projects.

The adopted FY 2025-26 budget established a retail monthly wastewater treatment and collection rate of \$54.40 per equivalent dwelling unit (EDU) and a wholesale wastewater treatment rate of \$30.75 per EDU. Additional charges are included in the rates for the cities of Gladstone, Happy Valley, and Oregon City to cover their ROW fees. Each city to which WES provides wholesale service adds a charge to WES' base wastewater treatment rate to cover the costs of building and maintaining their respective wastewater collection systems.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fiscal Year Ended June 30, 2025

Economic Factors and Next Year's Budget and Rates (Continued)

The FY 2025-26 budget included a surface water rate increase of \$0.25 from \$5.45 per equivalent service unit (ESU) to \$5.70 per ESU in Rate Zone 3 and an increase of \$0.45 from \$9.10 per ESU to \$9.55 per ESU in Rate Zone 2. Please see WES' budget for a more detailed explanation of its ratemaking approach.

WES' FY 2025-26 budget totals \$247.6 million, a decrease of 12.1% from FY 2024-25's budget. This decrease is primarily due to a reduction of \$28.1 million in capital outlay, from the previous year's high of \$79.5 million, as reflected in WES' Capital Improvement Plan (CIP).

Revenues are projected to increase by \$2.2 million, or 3.3% as a result of growth in the service area and the rate increases outlined above. Materials and services are expected to increase by approximately \$1.0 million, or 3.2% primarily due to increases in contracted labor costs related to salary adjustments anticipated from ongoing market studies and reduced vacancies. Other factors contributing to the increase in materials and services include increases in the costs of key operating inputs such as electricity and chemicals, and increased repair and maintenance expenses to ensure service reliability.

Capital outlay remains a significant focus, with \$51.5 million in planned spending as part of WES' Capital Improvement Plan (CIP). The FY 2025-26 budget includes funding for projects to increase wastewater system capacity, rehabilitate existing facilities, reduce inflow and infiltration, and improve the efficiency of treatment processes. Staffing levels reflect the addition of 3 new Full-Time Equivalent (FTE) positions, converted from six seasonal positions. The new FTE will increase operations staffing to maintain WES' expanding inventory of infrastructure assets, a growing area of responsibility that would otherwise rely on temporary seasonal staff or contracted services.

Financial Contact

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

Basic Financial Statements



WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET POSITION
June 30, 2025 and 2024

	2025	2024
ASSETS		
Current assets:		
Pooled cash and investments	\$ 95,690,387	\$ 108,309,948
Pooled cash and investments - restricted	-	12,005,051
Unbonded assessments receivable, net	61,242	65,945
Accrued interest receivable on assessments, net	889,107	862,808
Accounts receivable	8,493,042	6,402,369
Interest receivable	899,161	846,856
Lease receivable	63,600	72,000
Prepaid expenses	251,997	250,129
Retainage held in escrow - restricted	2,582,226	508,884
Total current assets	<u>108,930,762</u>	<u>129,323,990</u>
Noncurrent assets:		
Pooled cash and investments - restricted	42,855,819	60,064,162
Capital assets:		
Land, easements and construction in progress	99,610,870	44,370,993
Plant and equipment, net	200,849,174	203,577,100
Intangible assets, net	457,239	446,102
System development charges receivable, noncurrent portion	95,249	97,579
Bonded assessments receivable, net	85,254	85,254
Advance deposits for capital projects	9,257,002	9,257,002
Contracts receivable	2,000,000	2,000,000
Lease receivable, noncurrent	35,573	27,231
Unbonded assessments receivable, noncurrent portion	1,068,423	1,166,391
Total noncurrent assets	<u>356,314,603</u>	<u>321,091,814</u>
TOTAL ASSETS	<u>465,245,365</u>	<u>450,415,804</u>
LIABILITIES		
Current liabilities:		
Accounts payable	14,521,643	9,267,681
Contract labor payable, due to Clackamas County	1,295,802	1,105,423
Arbitrage rebate payable, current portion	1,620,123	-
Subscription liabilities	113,670	96,098
Due to Clackamas County	405,078	464,627
Accrued interest, payable from restricted assets	387,576	402,250
Current portion of long-term debt, payable from restricted assets	7,715,000	7,340,000
Loan payable, current portion	1,909,835	1,859,727
Total current liabilities	<u>27,968,727</u>	<u>20,535,806</u>

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

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WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
STATEMENTS OF NET POSITION (Continued)
June 30, 2025 and 2024

	2025	2024
Noncurrent liabilities:		
Subscription liabilities, net of current portion	\$ 173,882	\$ 225,618
Long-term contracts	1,900,000	1,900,000
Arbitrage rebate payable, net of current portion	-	1,285,049
Long-term debt, net of current portion, payable from restricted assets	93,990,236	102,818,144
Loan payable, net of current portion	32,985,521	34,271,735
Total noncurrent liabilities	<u>129,049,639</u>	<u>140,500,546</u>
 TOTAL LIABILITIES	 <u>157,018,366</u>	 <u>161,036,352</u>
 Deferred inflows of resources:		
Leases	107,769	108,625
Total deferred inflows of resources	<u>107,769</u>	<u>108,625</u>
 TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	 <u>157,126,135</u>	 <u>161,144,977</u>
 NET POSITION		
Net investment in capital assets	148,808,118	101,418,912
Restricted for capital projects	52,396,474	65,355,349
Restricted for debt service	1,910,997	6,028,905
Unrestricted	<u>105,003,641</u>	<u>116,467,661</u>
 TOTAL NET POSITION	 <u>\$ 308,119,230</u>	 <u>\$ 289,270,827</u>

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

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WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the fiscal years ended June 30, 2025 and 2024

	2025	2024
Operating revenues:		
Sanitary Sewer user charges	\$ 45,619,241	\$ 44,134,485
Surface Water user charges	6,820,870	6,440,253
Other operating revenues	1,731,118	1,717,243
	<hr/>	<hr/>
Total operating revenues	54,171,229	52,291,981
Operating expenses:		
Contracted salaries and benefits	17,416,210	15,567,418
Professional services	1,960,732	1,701,241
Laboratory services	182,183	139,217
Other County services	3,549,069	3,408,612
Supplies	3,077,770	2,974,055
Vehicle expenses	914,151	957,806
Repairs and maintenance	1,040,473	1,214,286
Utilities	2,614,662	2,385,894
Insurance	584,939	529,474
Other expense	1,121,622	1,090,920
Depreciation and amortization	16,280,354	14,435,717
	<hr/>	<hr/>
Total operating expenses	48,742,165	44,404,640
Operating income	<hr/>	<hr/>
	5,429,064	7,887,341
Nonoperating revenues (expenses):		
Interest income	7,860,712	6,377,148
Interest expense	(2,637,232)	(2,872,204)
Federal and state grants	1,243,915	926,533
Capital donations	-	(1,098,454)
Loss on disposal of capital assets	(157,969)	(167,148)
	<hr/>	<hr/>
Total nonoperating revenues	6,309,426	3,165,875
Income before contributions	<hr/>	<hr/>
	11,738,490	11,053,216
Contributions:		
System development charges	5,518,026	4,261,045
Capital contributions	1,591,887	5,126,644
	<hr/>	<hr/>
Total contributions	7,109,913	9,387,689
Change in net position	<hr/>	<hr/>
	18,848,403	20,440,905
Net position - beginning of year	<hr/>	<hr/>
	289,270,827	268,829,922
Net position - end of year	<hr/>	<hr/>
	\$ 308,119,230	\$ 289,270,827

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

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WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
STATEMENTS OF CASH FLOWS
for the fiscal years ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Received from customers	\$ 52,510,212	\$ 50,068,309
Payments to suppliers for goods and services	(11,581,685)	(11,045,785)
Payments to related entities for services	(20,806,502)	(19,287,364)
Other operating revenue	<u>1,707,311</u>	<u>1,723,961</u>
Net cash from operating activities	<u>21,829,336</u>	<u>21,459,121</u>
Cash flows from capital and related financing activities:		
Principal paid on capital debt	(9,359,413)	(8,923,727)
Interest paid on capital debt	(3,429,740)	(2,663,016)
Proceeds from loans	623,621	296,268
Assessment and contract principal collected	102,671	127,620
Interest received on assessments and contracts	45,685	89,612
System development charges collected	4,635,760	5,960,125
Federal and state grant revenue	4,215	50,283
Proceeds from the sale of capital assets	30,292	30,206
Acquisition and construction of capital assets	<u>(64,030,288)</u>	<u>(28,198,265)</u>
Net cash from capital and related financing activities	<u>(71,377,197)</u>	<u>(33,230,894)</u>
Cash flows from investing activities:		
Interest received	<u>7,714,906</u>	<u>7,280,947</u>
Net cash from investing activities	<u>7,714,906</u>	<u>7,280,947</u>
Net change in cash and cash equivalents	<u>(41,832,955)</u>	<u>(4,490,826)</u>
Pooled cash and investments, beginning of year	<u>180,379,161</u>	<u>184,869,987</u>
Pooled cash and investments, end of year ⁽¹⁾	<u>\$ 138,546,206</u>	<u>\$ 180,379,161</u>

⁽¹⁾ Pooled cash and investments are reflected on the
 Statements of Net Position as follows:

Current assets - unrestricted	\$ 95,690,387	\$ 108,309,948
Current assets - restricted	-	12,005,051
Noncurrent assets - restricted	42,855,819	60,064,162
	<u>\$ 138,546,206</u>	<u>\$ 180,379,161</u>

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

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WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
STATEMENTS OF CASH FLOWS (Continued)
For the fiscal years ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 5,429,064	\$ 7,887,341
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	16,280,354	14,435,717
Changes in assets and liabilities:		
Decrease (increase) in user charges and other receivables	54,342	(493,110)
Increase in prepaid expenses	(1,868)	(28,567)
Decrease in accounts payable and Due to Clackamas County	(122,935)	(538,186)
Increase in Contract labor payable, due to Clackamas County	190,379	195,926
Total adjustments	<u>16,400,272</u>	<u>13,571,780</u>
Net cash from operating activities	<u>\$ 21,829,336</u>	<u>\$ 21,459,121</u>
Noncash capital and related financing activities:		
Contributions of capital assets from governments, developers and customers	\$ 1,591,887	\$ 5,126,644
Right-to-use subscription and lease asset additions	125,522	280,764
Acquisition and construction of capital assets on account	3,244,006	5,279,738
Donation of capital assets	-	(1,098,454)

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

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WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025 and 2024

1. Summary of Significant Accounting Policies

Reporting Entity

Water Environment Services (WES) is an intergovernmental entity created in November 2016 through an Oregon Revised Statute (ORS) 190 agreement (the Agreement) between Clackamas County Service District No. 1 (CCSD No. 1) and the Tri-City Service District (TCSD). The Agreement was amended in May of 2017 to also include the Surface Water Management Agency of Clackamas County (SWMACC). On July 1, 2017, the operations of TCSD and SWMACC were transferred into WES. On July 1, 2018, the operations of CCSD No. 1 were transferred in.

WES was formed to provide long-term certainty and stability for the sanitary sewer and surface water customers in the three member service districts.

WES has no potential component units. Since Clackamas County, Oregon (County) is financially accountable for, and significantly influences the operations of WES and the Clackamas County Board of Commissioners also serves as WES' Board (the Board), WES is included as a blended component unit in the Annual Comprehensive Financial Report of Clackamas County, Oregon for the year ended June 30, 2025.

WES contracts with the County for their personnel services. Fiscal and accounting functions are provided by personnel supporting WES, the County Treasurer, and the County's Finance Department.

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

Basis of Accounting

WES' basic financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred regardless of the timing of related cash flows. WES maintains seven individual funds for state legal compliance, which are combined and reported as a unitary enterprise, similar to a commercial entity organized for profit in financial reporting.

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

WES 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 collection, and surface water management operations. Operating expenses include the cost of materials and services. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. Contributions represent system development charges, as well as capital assets contributed by governments and developers.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

1. Summary of Significant Accounting Policies (Continued)

Pooled Cash and Investments

State statutes authorize WES to invest in general obligations of the U.S. Government and in its agencies, and instrumentalities, of the U.S. or enterprises sponsored by the U.S. Government and obligations whose payment is guaranteed by the U.S., agencies and instrumentalities of the U.S. or enterprises sponsored by the U.S. Government, certain bonded obligations of Oregon municipalities, certain corporate indebtedness, bank repurchase agreements, bankers' acceptances, certain commercial paper, and the State of Oregon Treasurer's Local Government Investment Pool (LGIP), among others. As of June 30, 2025 and 2024, and for the years then ended, WES and the County were in compliance with the aforementioned State of Oregon statutes.

Pooled cash and investments represent WES' equity in pooled accounts maintained by the County Treasurer. Some financial information required by Governmental Accounting Standards Board Statements (GASB) No. 3, No. 31, No. 40, and No. 72 regarding the accounting and financial reporting for WES' pooled cash and investments, held by the Clackamas County Treasurer, has been disclosed in the County's Annual Comprehensive Financial Reports for the fiscal years ended June 30, 2025 and 2024.

Assessments Receivable

Assessments receivable represent the uncollected amounts levied against benefited property for the cost of local improvements. The assessments are generally payable over a period of 20 years at interest rates ranging from 5.0% to 10.18%. WES 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, 2025, is \$516,953 of which \$143,009 is accrued interest. The balance of the allowance at June 30, 2024, was the same. Assessments receivable arise from both bonded and unbonded sources. Bonded assessments were funded through revenue bond sales. Unbonded assessments were funded from WES' operations.

Accounts Receivable

Sanitary sewer and surface water user charges, included as accounts receivable in the Statements of Net Position, are due from property owners within WES' service area. An allowance for doubtful accounts is not deemed necessary as uncollectible accounts become a lien on the property.

Lease Receivable

Lease receivable are initially measured at the present value of the lease payments expected to be received during the lease term. A deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

1. Summary of Significant Accounting Policies (Continued)

Restricted Assets and Related Liabilities

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

Capital Assets

Capital assets are tangible and intangible assets, which include property, plant, equipment, software, and permits. Capital assets, except for intangible right-to-use assets, are defined by WES as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life in excess of one year.

Capital assets are stated at historical cost (except for intangible right-to-use assets, the measurement of which is discussed in separate paragraphs below). Routine maintenance and repairs that do not increase the asset's value or extend its useful life are expensed rather than capitalized. Donated capital assets are recorded at the acquisition value at the date of donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

Land and construction in process are not depreciated. The other tangible and intangible property, plant, and equipment are depreciated/amortized using the straight-line method over their estimated useful lives as follows:

<u>Capital Asset Class</u>	<u>Useful Lives</u>
Plant and buildings	10 - 50 years
Collection system	10 - 50 years
Equipment	5 - 20 years
Intangible assets	5 - 10 years

WES periodically reevaluates the estimated useful lives of these assets.

Intangible right-to-use assets include lease assets and subscription assets.

Lease assets are measured at an amount equal to the initial measurement of the related lease liability plus any payments made prior to the lease term and certain ancillary charges necessary to place the lease asset into service. WES' capitalization threshold for lease assets is an initial measurement of \$10,000 or more, and a lease term (including possible extensions) of greater than one year. Lease assets are amortized on a straight-line basis over the life of the related lease.

Subscription assets are measured at an amount equal to the initial measurement of the related subscription liability plus payments made before the commencement of the subscription term, as well as capitalizable initial implementation costs necessary to place the subscription asset into service. WES' capitalization threshold for subscription assets is an initial measurement of \$100,000 or more, and a subscription term (including possible extensions) of greater than one year. Subscription assets are amortized on a straight-line basis over the subscription term.

Intangible right-to-use lease and subscription assets are reported with other intangible capital assets on the Statements of Net Position.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows / Inflows of Resources

The Statements of Net Position will sometimes report a separate section for deferred outflows of resources, which represents a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time.

The Statements of Net Position will also sometimes report a separate section for deferred inflows of resources, which represents an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until then. WES' Statements of Net Position include the deferred inflows of resources from leases within this section.

Bonds

Bond premium costs are amortized over the life of the associated bond issuances.

Net Position

Net position represents the cumulative results of operating and nonoperating revenues, expenses and nonoperating expenses, and capital contributions. Net position is classified into the following components:

Net Investment in Capital Assets: This component consists of all capital assets, net of accumulated depreciation and amortization, and reduced by any outstanding debt directly related to the acquisition, construction, or improvement of those assets. Debt related to unspent bond proceeds or other restricted cash and investments is excluded from the calculation of this component.

Restricted Net Position: Restricted net position is reported when constraints are imposed by external parties, such as lenders, grantors, contributors, laws, or regulations, or through enabling legislation or contractual agreements. Restricted net position is further classified as follows:

Restricted for Capital Projects: The balance of \$52,396,474 at June 30, 2025, and \$65,355,349 at June 30, 2024, consists of unspent System Development Charges (SDCs), retainage held in escrow or separate interest-bearing accounts, and an advance deposit for capital projects under a cooperative utility agreement. These amounts are restricted due to enabling legislation and contractual agreements that dictate their use for specific capital projects.

Restricted for Debt Service: This portion of net position is restricted for the payment of debt service obligations, according to bond covenants and other external restrictions.

Unrestricted Net Position: This component consists of all other net position not included in the above categories. It represents resources that are available to meet ongoing operational and capital needs without externally imposed restrictions.

WES may fund outlays for a particular purpose from both restricted and unrestricted resources. To calculate the amounts reported as restricted and unrestricted net position in WES' financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is WES' policy to consider restricted resources to have been depleted before using any of the components of unrestricted resources.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

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, the 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.

Advance Deposits for Capital Projects

Advance deposits for capital projects represent prepayments made under cooperative agreements. These amounts are classified as current or noncurrent based on the expected timing of draws, which may occur either at project completion or throughout the project's duration, per the terms of the agreement.

For agreements where draws occur throughout the project, amounts are expensed as draws are made. For agreements where draws occur upon project completion, expenses and corresponding liabilities are recorded based on the estimated work completed for the fiscal year.

Prepaid Expenses

Payments to vendors for goods or services that will be received in future periods are recorded as prepaid items and expensed as consumed.

Retainage Held in Escrow – Restricted

Retainage held in escrow – restricted represents amounts withheld from construction contract payments and deposited in interest-bearing escrow or other separate accounts for the benefit of the contractor until project completion and acceptance. These funds are legally restricted by state statute and escrow agreement for payment to the contractor and are therefore classified as restricted assets on the Statements of Net Position.

Adoption of New GASB Pronouncements

During the fiscal years ended June 30, 2025 and 2024, the following new GASB pronouncements became effective:

GASB Statement No. 99, *Omnibus 2022*, Issued April 2022.

GASB Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*, Issued June 2022.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

1. Summary of Significant Accounting Policies (Continued)

Adoption of New GASB Pronouncements (Continued)

GASB Statement No. 101, Compensated Absences, Issued June 2022.

WES is staffed by employees of Clackamas County pursuant to an intergovernmental agreement (IGA). Because the County is the legal employer, the County retains all obligations associated with compensated absences for these employees. WES recognizes expenses for services received and accrues contract labor payable to the County for amounts incurred but not yet paid at year-end, as applicable. Reference should be made to the June 30, 2025, and June 30, 2024, Clackamas County Annual Comprehensive Financial Reports for the County's compensated absence liability recorded in accordance with GASB Statement No. 101.

GASB Statement No. 102, Certain Risk Disclosures, Issued December 2023.

Future Adoption of GASB Pronouncements

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2025:

GASB Statement No. 103, Financial Reporting Model Improvements, Issued April 2024.

GASB Statement No. 104, Disclosure of Certain Capital Assets, Issued September 2024.

WES will implement the new GASB pronouncements in the fiscal year no later than the required effective date. Management is currently evaluating the above listed new GASB pronouncements and has yet to determine the impact on WES' financial statements.

2. Stewardship, Compliance, and Accountability

WES is required by state law to budget its operations on a fund basis. The budget is generally prepared on the accrual basis of accounting under which revenues are recognized at the time they are earned, and expenses are recognized when they are incurred, regardless of the timing of the related cash flow. Differences exist between the basis of accounting used for financial reporting and the basis of budgeting. In particular, these differences include: principal payments on long-term debt are expended on a budgetary basis but are applied to the outstanding liability on a generally accepted accounting principles (GAAP) basis; capital outlay are treated as expenditures on a budgetary basis but are capitalized on a GAAP basis; debt proceeds are resources on a budgetary basis but are an outstanding liability on a GAAP basis; and depreciation and amortization is accrued for GAAP purposes but is not a budgeted expense as it does not require an expenditure of funds.

The resolution authorizing appropriations for WES' funds sets the level by which expenditures cannot legally exceed appropriations. Appropriations are made at the principal object level – materials and services, interfund transfers, capital outlay, debt service, special payments, and contingency – which are the levels of control established by the resolution. The budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

2. Stewardship, Compliance, and Accountability (Continued)

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 a hearing before the public, publication, 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 FY 2024-25, a supplemental budget was approved, which increased appropriations by \$2,769,200 in order to transfer the remaining unspent Series 2021 debt proceeds from the Debt Service Fund to the Sanitary Sewer Construction Fund for project expenditures. The transferred proceeds were fully expended on eligible capital projects during the fiscal year.

3. Pooled Cash and Investments

At June 30, pooled cash and investments consist of the following:

	2025	2024
Petty cash	\$ 400	\$ 1,000
Pooled cash and investments	<u>138,545,806</u>	<u>180,378,161</u>
	<u><u>\$ 138,546,206</u></u>	<u><u>\$ 180,379,161</u></u>

Pooled cash and investments are held by the County Treasurer and represent WES' equity in pooled accounts maintained by the County Treasurer. Investments with a remaining maturity of more than one year, at the time of purchase, are stated at fair value, which approximates cost.

Various inputs are used in determining the fair value of investments. These inputs to valuation techniques are categorized into a fair value hierarchy consisting of three broad levels for financial statement purposes as follows:

Level 1 - unadjusted price quotations in active markets/exchanges for identical assets or liabilities that WES has the ability to access.

Level 2 - other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks, and default rates) or other market-corroborated inputs).

Level 3 - unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including WES' own assumptions used in determining the fair value of investments).

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

3. Pooled Cash and Investments (Continued)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The categorization of a value determined for investments is based on the pricing transparency of the investments and is not necessarily an indication of the risks associated with investing in those securities.

Reference may be made to the June 30, 2025, and June 30, 2024, Clackamas County Annual Comprehensive Financial Reports for the classifications of WES' pooled accounts maintained by the County Treasurer.

Oregon Revised Statutes (ORS) require the public funds depository institution to be a participant in a multiple financial institution collateral pool administered by the Oregon State Treasurer or otherwise adequately collateralized as outlined in ORS 295. Reference should be made to the June 30, 2025, and June 30, 2024, Clackamas County Annual Comprehensive Financial Reports for compliance with these statutes.

PFM Asset Management LLC provides administrative and operational support for the Local Government Investment Pool (LGIP). The LGIP is an open-ended no-load diversified portfolio. The LGIP is offered to, but are not limited to, any municipality, political subdivision or public corporation of Oregon who by law is made the custodian of, or has control of, any public funds. The LGIP is commingled with state funds in the Oregon Short-Term Fund (OSTF). In seeking to best serve participants, the Oregon Legislature established the OSTF Board. The OSTF Board advises the Oregon Investment Council and State Treasury in the management and investments of the OSTF. The OSTF is an external investment pool. The OSTF is not registered with the U.S. Securities and Exchange Commission as an investment company. Separate financial statements for the OSTF are available from the Oregon State Treasurer.

Investments in the LGIP are stated at fair value, which approximates cost. Fair value in the LGIP is the same as the value of its pool shares. WES' LGIP funds are in WES' name and reference should be made to the June 30, 2025, and June 30, 2024, Clackamas County Annual Comprehensive Financial Reports for disclosures of the risk inherent in the County's portfolio.

Custodial Credit Risk

WES is exposed to custodial credit risk because its cash and investments are held by a counterparty in the counterparty's name. This is the risk that in the event of failure of the counterparty, WES' deposits may not be returned. WES' cash and investments are held by Clackamas County in a pool. The pool consists of bank and local government investment pool accounts and federal treasury securities. This pool is subject to general credit claims of the County. WES believes that the risk of County default is slight and outweighed by the advantages of participation in the County cash and investment pool.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

3. Pooled Cash and Investments (Continued)

Custodial Credit Risk (Continued)

WES follows Clackamas County's policies to address custodial credit risk, which mirror parameters for the investment of public funds set forth in the ORS. Reference should be made to the Clackamas County Annual Comprehensive Financial Reports for information about the interest, credit, and custodial credit risks associated with the County's various cash and investments.

Credit Risk

WES is exposed to credit risk through the investments made by the Clackamas County Treasurer and the LGIP. 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.

WES follows Clackamas County's policies to address credit risk, which mirror parameters for the investment of public funds set forth in the ORS. Reference should be made to the Clackamas County Annual Comprehensive Financial Reports for information about the interest, credit, and custodial credit risks associated with the County's various cash and investments.

The State of Oregon LGIP is unrated. Investments with the County Treasurer are invested in-line with the County's investment policy.

4. Accounts Receivable

At June 30, amounts consist of the following:

	2025	2024
User charges	\$ 5,725,907	\$ 5,796,008
System development charges (SDCs) from cities	1,016,246	131,910
Current SDCs receivable, including interest of \$6,442 at June 30, 2025, and \$5,308 at June 30, 2024	21,156	19,763
Interest receivable on contracts	95,616	75,616
Intergovernmental agreement and miscellaneous receivables	<u>1,634,117</u>	<u>379,072</u>
	<u>\$ 8,493,042</u>	<u>\$ 6,402,369</u>

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

5. Capital Assets

Changes in capital assets for the year ended June 30, 2025, were as follows:

	Balance June 30, 2024	Additions	Transfers	Deletions	Balance June 30, 2025
Capital assets not being depreciated:					
Land and easements	\$ 10,118,767	\$ 27,000	\$ 106,893	\$ -	\$ 10,252,660
Construction in progress	34,252,226	67,274,294	(12,161,012)	(7,298)	89,358,210
Total capital assets, not being depreciated	44,370,993	67,301,294	(12,054,119)	(7,298)	99,610,870
Capital assets being depreciated and amortized:					
Intangibles	1,942,889	-	9,902	(781,255)	1,171,536
Right-to-use - SBITA subscriptions	551,577	125,522	-	-	677,099
Collection plant	219,698,785	1,564,887	2,620,825	(677,326)	223,207,171
Pumping plant	37,183,315	-	2,376,142	(1,409,930)	38,149,527
Treatment plant	261,864,432	-	4,780,429	(516,681)	266,128,180
General plant	36,565,930	-	2,266,821	(24,827)	38,807,924
Total capital assets being depreciated and amortized	557,806,928	1,690,409	12,054,119	(3,410,019)	568,141,437
Less accumulated depreciation and amortization for:					
Intangibles	(1,921,064)	(8,579)	-	781,255	(1,148,388)
Right-to-use - SBITA subscriptions	(127,300)	(115,708)	-	-	(243,008)
Collection plant	(118,301,130)	(5,565,849)	-	550,297	(123,316,682)
Pumping plant	(25,530,260)	(1,407,445)	-	1,376,658	(25,561,047)
Treatment plant	(187,114,046)	(6,997,103)	-	496,019	(193,615,130)
General plant	(20,789,926)	(2,185,670)	-	24,827	(22,950,769)
Total accumulated depreciation and amortization	(353,783,726)	(16,280,354)	-	3,229,056	(366,835,024)
Total capital assets being depreciated and amortized, net	204,023,202	(14,589,945)	12,054,119	(180,963)	201,306,413
Total capital assets, net	<u>\$ 248,394,195</u>	<u>\$ 52,711,349</u>	<u>\$ -</u>	<u>\$ (188,261)</u>	<u>\$ 300,917,283</u>

Depreciation and amortization expense for the year ended June 30, 2025, totaled \$16,280,354.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

5. Capital Assets (Continued)

Changes in capital assets for the year ended June 30, 2024, were as follows:

	Balance June 30, 2023	Additions	Transfers	Deletions	Balance June 30, 2024
Capital assets not being depreciated:					
Land and easements	\$ 9,806,137	\$ 234,295	\$ 78,335	\$ -	\$ 10,118,767
Construction in progress	23,053,147	33,478,003	(21,153,766)	(1,125,158)	34,252,226
Total capital assets, not being depreciated	<u>32,859,284</u>	<u>33,712,298</u>	<u>(21,075,431)</u>	<u>(1,125,158)</u>	<u>44,370,993</u>
Capital assets being depreciated and amortized:					
Intangibles	3,748,666	-	-	(1,805,777)	1,942,889
Right-to-use - SBITA subscriptions	270,813	280,764	-	-	551,577
Collection plant	213,618,280	4,892,350	1,619,606	(431,451)	219,698,785
Pumping plant	32,669,060	-	5,322,612	(808,357)	37,183,315
Treatment plant	251,054,358	-	12,819,061	(2,008,987)	261,864,432
General plant	35,656,025	-	1,314,152	(404,247)	36,565,930
Total capital assets being depreciated and amortized	<u>537,017,202</u>	<u>5,173,114</u>	<u>21,075,431</u>	<u>(5,458,819)</u>	<u>557,806,928</u>
Less accumulated depreciation and amortization for:					
Intangibles	(3,718,256)	(8,585)	-	1,805,777	(1,921,064)
Right-to-use - SBITA subscriptions	(24,803)	(102,497)	-	-	(127,300)
Collection plant	(113,390,854)	(5,332,362)	-	422,086	(118,301,130)
Pumping plant	(25,299,248)	(939,221)	-	708,209	(25,530,260)
Treatment plant	(183,222,816)	(5,880,818)	-	1,989,588	(187,114,046)
General plant	(19,010,200)	(2,172,234)	-	392,508	(20,789,926)
Total accumulated depreciation and amortization	<u>(344,666,177)</u>	<u>(14,435,717)</u>	<u>-</u>	<u>5,318,168</u>	<u>(353,783,726)</u>
Total capital assets being depreciated and amortized, net	<u>192,351,025</u>	<u>(9,262,603)</u>	<u>21,075,431</u>	<u>(140,651)</u>	<u>204,023,202</u>
Total capital assets, net	<u><u>\$ 225,210,309</u></u>	<u><u>\$ 24,449,695</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1,265,809)</u></u>	<u><u>\$ 248,394,195</u></u>

Depreciation and amortization expense for the year ended June 30, 2024, totaled \$14,435,717.

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WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

6. Lease Receivable

On June 2, 2022, WES entered into a 43-month lease as lessor for the use of three acres of land at the Tri-City Water Resource Recovery Facility. Under the lease agreement, the lessee is required to make quarterly fixed payments of \$18,000. The lessee has two extension options, each for six months. During FY 2024-25, the lessee indicated their intention to exercise both of the available six-month extensions included in the original agreement. In accordance with GASB Statement No. 87, WES remeasured the lease receivable and related deferred inflow of resources as of June 30, 2025, to reflect the revised lease term.

At lease inception, an initial lease receivable was recorded in the amount of \$259,292, measured at the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 0.527%. A deferred inflow of resources was recorded in an amount equal to the initial recording of the lease receivable and is being amortized on a straight-line basis over the term of the lease.

As of June 30, 2025 and 2024, the lease receivable is \$99,173 and \$99,231, respectively. The related deferred inflow of resources is \$107,769 and \$108,625, respectively.

Lease revenue recognized under this agreement totaled \$72,417 in both FY 2024-25 and FY 2023-24. In addition, WES recognized interest revenue of \$351 and \$745 in FY 2024-25 and FY 2023-24, respectively.

Future receipts related to the lease receivable are as follows:

Fiscal Year	Principal	Interest	Total
2026	\$ 63,244	\$ 356	\$ 63,600
2027	<u>35,929</u>	<u>71</u>	<u>36,000</u>
	<u>\$ 99,173</u>	<u>\$ 427</u>	<u>\$ 99,600</u>

On the Statements of Net Position, the current portion of the lease receivable includes the related interest, while the noncurrent portion reflects only the principal amount due in future periods.

7. Contracts Receivable

On September 18, 2020, WES entered into a purchase and sale agreement with a private developer which provided for the sale of the majority of the former Blue Heron property with WES retaining a 2.2 acre parcel of the property for future use. In consideration for the property, WES received a note for a base purchase price of \$2.0 million with a maturity date of October 1, 2030. Interest will accrue on the base principal at the rate of 1.0% per annum until the note is fully paid. Per the terms of the note, the final principal amount will be determined by the date of the payment; it may be adjusted to as high as \$8.0 million subject to development up-zoning or to as low as \$500,000 subject to the buyer incurring excess environmental cleanup costs. As of June 30, 2025 and 2024, none of the conditions required for the principal to adjust have occurred, and the note has been recorded at the base purchase price of \$2.0 million. The note had accrued interest of \$95,616 at June 30, 2025, and \$75,616 at June 30, 2024; this interest is included in the accounts receivable balance in the Statements of Net Position.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

7. Contracts Receivable (Continued)

On October 12, 2023, WES entered into a subordination agreement related to the \$2.0 million note. Under the terms of the agreement, WES' lien on the property is subordinate to a new \$2.0 million loan provided to a private developer. This arrangement was made to support the ongoing development of the property, and aligns with the original promissory note's terms, whereby WES agreed to subordinate its lien to subsequent loans. These subsequent loans are capped at an amount not to exceed the greater of \$10.0 million or 85% of the property's completed appraised value.

8. Loans Payable

The following amounts represent obligations for state revolving fund loans from the DEQ which were used for the construction of capital assets and are payable in semi-annual installments.

In November of 2011, the American Recovery and Reinvestment Act Loan R06224 that was originally awarded in 2009 was amended. The amount of this loan is \$4,142,142 which financed construction of collector sewers in the North Clackamas Revitalization Area (NCRA). These funds are administered by the Oregon DEQ. Of the total amount, \$2,071,071 (50%) is in the form of a loan to be forgiven at the completion of the project. The general terms of the loan forgiveness require timely payments and solvency. Accordingly, \$2,000,000 was reported as capital contributions in 2010, and \$71,071 was reported as capital contributions in 2013. Loan payments are payable in semi-annual installments of principal and interest over 20 years, with a stated interest rate of 0%. Payments commenced in FY 2013-14.

In November 2018, WES entered into a loan agreement with the State of Oregon via DEQ for Clean Water State Revolving Loan R95030 in the amount of \$37,000,000 at 2.14% interest to finance construction of the Tri-City Solids Handling Improvement project. The project was completed in FY 2021-22. In October 2022, WES signed an amendment to the loan agreement which reduced the interest rate from 2.14% to a promotional rate of 1.0%. Loan payments commenced in FY 2022-23 and are payable in semi-annual installments of principal and interest over 20 years.

In September 2020, WES entered into a loan agreement with the State of Oregon via DEQ for Sponsorship Option Loan R95031 to finance the design phase of the Three Creeks Floodplain Enhancement project. The total amount of the loan is \$1,450,000 with an interest rate of 1.38%. The design phase was completed during FY 2024-25, and the final disbursement of \$623,621 was received in May 2025. As of June 30, 2025 and 2024, loan disbursements totaled \$1,450,000 and \$826,379, respectively. Loan payments, in semi-annual installments of principal and interest over 20 years, will commence in FY 2025-26.

Similar to its bond covenants for outstanding revenue obligations (see below), WES has irrevocably pledged its net operating revenues towards payment of loans R06224, R95030, and R95031. If the loans are defaulted, by failure to make required principal or interest payments, or failing to conform to any covenants or conditions of this agreement, the State could declare all principal and interest and all other amounts due immediately. It could also set and collect utility rates and charges or direct the State Treasurer to withhold any amounts otherwise due to the borrower from the State of Oregon.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

8. Loans Payable (Continued)

These loans are collateralized by future user charge revenues and contain certain financial covenants. As of June 30, 2025 and 2024, management believes WES was in compliance with these covenants.

Changes in loans payable for the year ended June 30, 2025, are as follows:

	Interest Rates	Outstanding June 30, 2024	Increases	Decreases	Outstanding June 30, 2025	Current Portion
Revolving Loan R06224	0.00%	\$ 902,783	\$ -	\$ (106,208)	\$ 796,575	\$ 106,208
Revolving Loan R95030	1.00%	34,402,300	-	(1,753,519)	32,648,781	1,771,099
Revolving Loan R95031	1.38%	<u>826,379</u>	<u>623,621</u>	<u>-</u>	<u>1,450,000</u>	<u>32,528</u>
		<u><u>\$ 36,131,462</u></u>	<u><u>\$ 623,621</u></u>	<u><u>\$ (1,859,727)</u></u>	<u><u>\$ 34,895,356</u></u>	<u><u>\$ 1,909,835</u></u>

Changes in loans payable for the year ended June 30, 2024, are as follows:

	Interest Rates	Outstanding June 30, 2023	Increases	Decreases	Outstanding June 30, 2024	Current Portion
Revolving Loan R06224	0.00%	\$ 1,008,991	\$ -	\$ (106,208)	\$ 902,783	\$ 106,208
Revolving Loan R95030	1.00%	36,138,415	-	(1,736,115)	34,402,300	1,753,519
Revolving Loan R95031	1.38%	<u>530,111</u>	<u>296,268</u>	<u>-</u>	<u>826,379</u>	<u>-</u>
		<u><u>\$ 37,677,517</u></u>	<u><u>\$ 296,268</u></u>	<u><u>\$ (1,842,323)</u></u>	<u><u>\$ 36,131,462</u></u>	<u><u>\$ 1,859,727</u></u>

Future maturities of revolving loans are as follows:

Fiscal Year	Principal	Interest/Admin. Fees	Total
2026	\$ 1,909,835	\$ 534,582	\$ 2,361,922
2027	1,960,793	483,688	2,352,491
2028	1,979,637	454,993	2,342,971
2029	1,998,673	426,011	2,333,361
2030	2,017,903	396,740	2,414,643
2031-2035	10,119,405	1,535,863	11,655,268
2036-2040	10,364,955	770,505	11,135,460
2041-2045	4,544,155	93,450	4,637,605
	<u><u>\$ 34,895,356</u></u>	<u><u>\$ 4,695,832</u></u>	<u><u>\$ 39,233,721</u></u>

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

9. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2025, are as follows:

	Interest Rates	Outstanding		Decreases	Outstanding June 30, 2025	Current Portion
		June 30, 2024	Increases			
Revenue Obligations - 2016	2.000% - 5.000%	\$ 63,905,000	\$ -	\$ (4,945,000)	\$ 58,960,000	\$ 5,200,000
Revenue Obligations - 2021	2.000% - 5.000%	33,485,000	-	(2,395,000)	31,090,000	2,515,000
		\$ 97,390,000	\$ -	\$ (7,340,000)	\$ 90,050,000	\$ 7,715,000

Changes in long-term debt for the year ended June 30, 2024, are as follows:

	Interest Rates	Outstanding		Decreases	Outstanding June 30, 2024	Current Portion
		June 30, 2023	Increases			
Revenue Obligations - 2016	2.000% - 5.000%	\$ 68,610,000	\$ -	\$ (4,705,000)	\$ 63,905,000	\$ 4,945,000
Revenue Obligations - 2021	2.000% - 5.000%	35,765,000	-	(2,280,000)	33,485,000	2,395,000
		\$ 104,375,000	\$ -	\$ (6,985,000)	\$ 97,390,000	\$ 7,340,000

Changes in premiums for the year ended June 30, 2025, are as follows:

	Balance			June 30, 2025
	June 30, 2024	Increases	Decreases	
Revenue Obligations - 2016 Premium	\$ 6,313,867	\$ -	\$ (526,156)	\$ 5,787,711
Revenue Obligations - 2021 Premium	6,454,277	-	(586,752)	5,867,525
	\$ 12,768,144	\$ -	\$ (1,112,908)	\$ 11,655,236

Changes in premiums for the year ended June 30, 2024, are as follows:

	Balance			June 30, 2024
	June 30, 2023	Increases	Decreases	
Revenue Obligations - 2016 Premium	\$ 6,840,023	\$ -	\$ (526,156)	\$ 6,313,867
Revenue Obligations - 2021 Premium	7,041,029	-	(586,752)	6,454,277
	\$ 13,881,052	\$ -	\$ (1,112,908)	\$ 12,768,144

WES' revenue bond Master Declaration of Covenants, which provides terms and conditions for all current pari passu debt, contains a provision that in the event of default, outstanding amounts may become immediately due and/or bondholders may require rates to be increased and/or revenues directed to debt repayment and away from operating or capital expenses.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

9. Long-Term Debt (Continued)

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

	2025	2024
Current maturities - face value	\$ 7,715,000	\$ 7,340,000
	<u>\$ 7,715,000</u>	<u>\$ 7,340,000</u>
Future maturities - face value	\$ 82,335,000	\$ 90,050,000
Premium	11,655,236	12,768,144
	<u>\$ 93,990,236</u>	<u>\$ 102,818,144</u>

Revenue Obligations 2016 and 2021

Revenue obligations are payable from monthly sewer fees collected from customers connected to and benefited by the system. In August of 2016, revenue obligations series 2016 were issued in the amount of \$83,250,000, with an all-in interest rate of 2.2% and coupon interest rates ranging from 2.0% to 5.0%. The proceeds were used to advance refund \$77,070,000 of outstanding 2009A, 2009B, and 2010 revenue obligations and to pay off outstanding Oregon DEQ Clean Water State Revolving Fund Loan R22403, which had interest rates ranging from 2.77% to 4.7%. The net proceeds of \$85,876,532 (including a \$10,523,115 premium and after payment of \$1,519,115 in underwriting fees and other issuance costs and the payoff of Loan R22403 in the amount of \$6,377,468) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds. As a result, portions of the 2009A, 2009B, and 2010 are considered defeased and the liability for those bonds has been removed from the Statements of Net Position.

In February of 2021, revenue obligations series 2021 were issued in the amount of \$40,000,000 with coupon interest rates ranging from 2.0% to 5.0%. The net proceeds of \$48,687,948 (including a \$8,801,286 premium and after payment of \$113,338 in underwriting fees and other issuance costs) were used to finance capital projects.

Maturities of 2016 bond principal at June 30, 2025, are as follows:

Fiscal Year	Principal	Interest
2026	\$ 5,200,000	\$ 1,702,881
2027	5,470,000	1,436,132
2028	5,720,000	1,184,981
2029	5,925,000	981,706
2030	6,075,000	832,081
2031-2035	29,130,000	1,979,197
2036	<u>1,440,000</u>	<u>18,900</u>
	<u>\$ 58,960,000</u>	<u>\$ 8,135,878</u>

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

9. Long-Term Debt (Continued)

Revenue Obligations 2016 and 2021 (Continued)

Maturities of 2021 bond principal at June 30, 2025, are as follows:

Fiscal Year	Principal	Interest
2026	\$ 2,515,000	\$ 1,168,500
2027	2,640,000	1,042,750
2028	2,770,000	910,750
2029	2,910,000	772,250
2030	3,055,000	626,750
2031-2035	<u>17,200,000</u>	<u>1,215,100</u>
	<u><u>\$ 31,090,000</u></u>	<u><u>\$ 5,736,100</u></u>

Under the revenue obligation agreements, WES 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 and a minimum of an additional twenty percent (20.0%) collected. WES has also agreed to maintain restricted reserve accounts to provide for the payment of debt service in the event that pledged revenues are not sufficient to pay debt service when due. Management believes WES was in compliance with these covenants during the years ended June 30, 2025 and 2024.

At June 30, 2025, future pledged revenues are as follows:

Purpose	Revenue Stream	For the Year Ending June 30, of Final Payments	Future Pledged Revenue Debt Outstanding	For the Year Ended June 30, 2025 Revenue ⁽¹⁾	For the Year Ended June 30, 2025 Debt (P&I) Payments
State Loan R06224	Sewer Assessments	2033	\$ 796,575	\$ 34,015,096	\$ 110,456
State Loan R95030	Sewer Fees	2042	32,648,781	-	2,260,809
State Loan R95031	Surface Water Fees	-	1,450,000	-	-
Revenue Obligations 2016	Sewer Fees	2036	58,960,000	-	6,901,507
Revenue Obligations 2021	Sewer Fees	2035	<u>31,090,000</u>	<u>-</u>	<u>3,683,250</u>
Total			<u><u>\$ 124,945,356</u></u>	<u><u>\$ 34,015,096</u></u>	<u><u>\$ 12,956,022</u></u>

(1) Same net revenue source pledged for multiple purposes. Total Gross Revenues of \$66,476,907 less Total Operating Expenses of \$32,461,811.

10. Subscription Liabilities

WES has entered into various subscription-based IT arrangements (SBITAs) for software used for data management, operational control, and project management. At June 30, 2025, WES has five active SBITAs with remaining terms ranging from one to seven years. The subscriptions have annual payments that range from \$5,820 to \$63,587 for the current fiscal year and interest rates that range from 2.5820% to 3.6870%. As of June 30, 2025 and 2024, the total combined value of the subscription liability is \$287,552 and \$321,716, respectively. The associated subscription right-to-use assets and related amortization are included in capital assets.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

10. Subscription Liabilities (Continued)

Changes in subscription liabilities for the year ended June 30, 2025, are as follows:

	Outstanding June 30, 2024	Increases	Decreases	Outstanding June 30, 2025	Current Portion
Subscriptions	<u>\$ 321,716</u>	<u>\$ 125,522</u>	<u>\$ (159,686)</u>	<u>\$ 287,552</u>	<u>\$ 113,670</u>

Changes in subscription liabilities for the year ended June 30, 2024, are as follows:

	Outstanding June 30, 2023	Increases	Decreases	Outstanding June 30, 2024	Current Portion
Subscriptions	<u>\$ 137,356</u>	<u>\$ 280,764</u>	<u>\$ (96,404)</u>	<u>\$ 321,716</u>	<u>\$ 96,098</u>

Future minimum payments for subscription liabilities as of June 30, 2025, are as follows:

Fiscal Year	Principal	Interest	Total
2026	\$ 113,670	\$ 8,930	\$ 122,600
2027	56,049	5,624	61,673
2028	60,635	3,829	64,464
2029	40,626	1,884	42,510
2030	5,380	440	5,820
2031-2032	11,192	448	11,640
	<u>\$ 287,552</u>	<u>\$ 21,155</u>	<u>\$ 308,707</u>

11. Arbitrage Rebate Payable

WES is subject to the Internal Revenue Code's arbitrage rebate requirements related to tax-exempt bonds issued after 1986. Arbitrage rebate represents the excess investment earnings on bond proceeds that are required to be rebated to the federal government. These provisions generally require WES to calculate the rebate liability every five years and remit any rebate due.

As of June 30, 2025 and 2024, WES has recognized an arbitrage rebate liability of \$1,620,123 and \$1,285,049, respectively. The accrued liability is recorded as Arbitrage rebate payable in the Statements of Net Position and will be remitted to the federal government in accordance with rebate requirements. The payment is due in February 2026 and, accordingly, the liability has been classified as current as of June 30, 2025.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

12. Commitments

WES has agreements with the cities of Gladstone, Oregon City, and West Linn. Pertinent terms of these agreements are as follows:

- The cities will process and review all permit applications for hookup and inspection; operate and maintain local collection facilities; bill and collect sewer user charges and system development charges.
- The cities will collect and remit a contractual percentage of system development charges to WES.
- The cities will bill and collect sewer user charges monthly according to the rate schedule provided by WES.
- Should WES fail to perform services outlined in these agreements, the cities can terminate the agreement upon 30 days written notice.

WES has agreements with the cities of Johnson City and Milwaukie to provide wholesale sanitary sewer service according to a 25-year wholesale service agreement codified in FY 2012-13.

In accordance with the terms of these agreements, the following fees and charges were earned by WES during the years ended June 30:

	2025	2024
Sanitary Sewer user charges	\$ 16,667,503	\$ 16,029,545
System development charges	2,005,679	1,874,990
Pump station maintenance charges	<u>11,588</u>	<u>5,802</u>
	<hr/> <u>\$ 18,684,770</u>	<hr/> <u>\$ 17,910,337</u>

In August 2022, WES entered into an agreement with the city of Gladstone to rehabilitate a pump station owned by the city as part of a larger rehabilitation project including several pump stations owned by WES. Under the terms of the agreement, WES will manage the rehabilitation project, and the city is responsible for reimbursing WES for work related to the city's pump station. The estimated full cost of work reimbursable by the city for this project over the approximately three-year agreement term is \$728,075. During FY 2023-24, WES invoiced the city for reimbursable project expenses of \$15,687. There was no work billed during FY 2024-25. Subsequent to fiscal year-end, the agreement was amended to extend the term to December 31, 2026.

WES has an agreement with the city of Happy Valley related to development review, planning, and surface water services.

Good Neighbor Intergovernmental Agreements

During FY 2019-20, WES entered into a Good Neighbor agreement with the cities of Gladstone and Oregon City to fund neighborhood enhancement projects relating to the hosting of the Tri-City Water Resource Recovery Facility (WRRF) in their communities. The annual payments related to this agreement totaled \$253,611 for FY 2024-25 and \$250,000 for FY 2023-24.

In January 2023, WES entered into a Good Neighbor agreement with the city of Milwaukie to fund neighborhood enhancement projects relating to the hosting of the Kellogg Creek Water Resource Recovery Facility in the city. Total payments related to this agreement in FY 2024-25 and FY 2023-24 were \$144,378 and \$142,762, respectively.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

12. Commitments (Continued)

Regional Inflow and Infiltration Reduction Intergovernmental Agreements

In January 2022, WES entered into a “Regional Inflow and Infiltration (I&I) Reduction” agreement with the city of Johnson City. In March 2022, the cities of Gladstone, Happy Valley, Milwaukie, and Oregon City joined the agreement. This agreement is intended to reduce inflow and infiltration in the cities’ wastewater collection systems, which will reduce the need for additional treatment and collection capacity in WES’ systems, resulting in substantial future cost savings for WES.

Under the terms of the agreement, WES reimburses its partner cities for 33% of approved joint project costs by constructing infrastructure for I&I reduction projects within the cities’ collection systems. Upon completion, the infrastructure constructed by WES is donated to the cities.

In FY 2023-24, WES completed and donated \$1,098,454 of infrastructure to partner cities under this agreement. Total costs related to this agreement in FY 2024-25 and FY 2023-24 were \$3,278,743 and \$2,169,533, respectively.

Cooperative Utility Intergovernmental Agreement

In November 2021, WES entered a Cooperative Improvement (Utility) Agreement with Oregon Department of Transportation (ODOT) for construction of a new sewer force main in conjunction with ODOT’s expansion of the Abernethy Bridge in Oregon City. Per the terms of the agreement, WES made an advance deposit of \$9.26 million during FY 2021-22 to cover the estimated project costs.

As of June 30, 2024 and 2025, WES has recorded an expense and corresponding liability of \$1.9 million for work completed on the project during FY 2023-24. No substantial work was completed during FY 2024-25. No draws were made against the deposit during FY 2024-25 and FY 2023-24. In accordance with the agreement, draws will only be made upon the completion of the sewer force main construction. ODOT will construct the sewer force main at the appropriate time in sequence with other bridge improvements.

WES is committed under contractual agreements for various multi-year contracts related to capital acquisition and service agreements. The total contract costs are approximately \$172.9 million. As of June 30, 2025, approximately \$64.9 million of these contracts remain outstanding.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

13. Related-Party Transactions

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

- Clackamas County
- Clackamas County Development Agency
- Clackamas County Enhanced Law Enforcement District
- Clackamas County Extension and 4-H Service District
- Clackamas County Service District No. 5
- Housing Authority of Clackamas County
- Library District of Clackamas County
- North Clackamas Parks and Recreation District

During FYs 2024-25 and 2023-24, fiscal and accounting functions, service of certain assets, and certain repairs and maintenance on plant and equipment were performed by personnel of various Clackamas County departments, including Department of Transportation and Development, North Clackamas Parks and Recreation District, and County Treasurer. Operating expenses in the Statements of Revenues, Expenses, and Changes in Net Position for 2025 and 2024, charged by the above departments, totaled \$20,937,110 and \$18,976,030, respectively.

In February 2024, WES entered into an intergovernmental agreement with the Clackamas County Development Agency (the Agency) for the design and construction of a sanitary sewer force main replacement as part of the Agency's Monroe Street Improvements Project. The inclusion of this work in the Monroe Street Improvements Project will allow WES to avoid future disruptions to newly completed roadway improvements. The original value of the agreement was \$209,740, with the project expected to be completed by December 31, 2025. In March 2025, the agreement was amended to increase the funding by \$6,200. Subsequent to fiscal year-end, in September 2025, the agreement was further amended to increase the funding by \$18,000, bringing the total agreement value to \$233,940. Total costs related to this agreement in FY 2024-25 and FY 2023-24 were \$219,186 and \$0, respectively.

At June 30, related-party balances consist of:

	Receivable		Payable	
	2025	2024	2025	2024
Clackamas County *	\$ 1,401,719	\$ 280,711	\$ 405,078	\$ 464,627
Clackamas County - Contract labor payable	-	-	1,295,802	1,105,423
	<u>\$ 1,401,719</u>	<u>\$ 280,711</u>	<u>\$ 1,700,880</u>	<u>\$ 1,570,050</u>

* From the Statements of Net Position, the related-party receivable for Clackamas County reflects a subset of the Accounts receivable balance.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2025 and 2024

14. Litigation

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

15. Risk Management

WES is exposed to various risks of loss related to errors and omissions; automobile; damage to and destruction of assets; and bodily injury for which WES carries commercial insurance. An IGA between WES and Clackamas County clarifies that for workers' compensation and employment practice liability issues, WES participates in the County's self-insurance program where not commercially insured. All employees of WES are contracted from the County. WES makes payments where applicable to the County's self-insurance internal service funds based on historical cost information, estimates of the amounts needed to pay prior year and current year claims, claim reserves, premiums and administrative costs of the program. During the past three fiscal years, no settled claims from the County's self-insurance program have exceeded insurance coverage levels, and there has been no significant reduction in coverage.

16. Pollution Remediation

An agreement with the DEQ entered into on June 2, 2000, requires WES to perform certain, specific pollution remediation measures on property owned by WES adjacent to the Tri-City Water Resource Recovery Facility (TCWRRF) that had been used for municipal refuse. The agreement does not have a specific date by which these remediation efforts must be completed. Rather, these measures are to be taken at a time in the future if WES decides to expand the TCWRRF property to provide additional treatment capacity.

17. Reclassifications

Beginning in FY 2024-25, retainage held in escrow – restricted is presented separately from prepaid items on the Statements of Net Position to distinguish amounts restricted for capital construction activities from operating prepaids. This change also resulted in the reclassification of related cash flow activity from operating activities to capital and related financing activities on the Statements of Cash Flows. Prior-year amounts were reclassified for comparability. The reclassification does not affect total net position or the total change in cash and cash equivalents.

Supplementary Information



WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
DESCRIPTION OF BUDGETARY FUNDS

Basis of Accounting

For financial reporting and operating purposes, management considers WES' 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.

Fund Descriptions

Sanitary Sewer Operating Fund

The Sanitary Sewer Operating Fund accounts for all operating and maintenance expenses for day-to-day sanitary sewer operations. The primary resources are sanitary sewer user charges.

Sanitary Sewer System Development Charge Fund

The Sanitary Sewer System Development Charge (SDC) Fund accounts for sanitary sewer capital expenditures related to growth or increased capacity. The primary resources are system development charges for new sanitary sewer connections.

Debt Service Fund

The Debt Service Fund accounts for redemption of revenue bonds and interest thereon, as well as payment of the Department of Environmental Quality loans. The primary resources are transfers of user charges and system development charges from other funds.

Sanitary Sewer Construction Fund

The Sanitary Sewer Construction Fund accounts for non-SDC sanitary sewer capital expenditures. The primary resources are transfers from the Sanitary Sewer Operating Fund and interest earnings.

Surface Water Operating Fund

The Surface Water Operating Fund accounts for all surface water operating and maintenance activities of WES. The primary resources are surface water user charges.

Surface Water System Development Charge Fund

The Surface Water System Development Charge Fund accounts for surface water capital expenditures related to growth or increased capacity. The primary resources are system development charges for new surface water connections.

Surface Water Construction Fund

The Surface Water Construction Fund accounts for non-SDC surface water capital expenditures. The primary resources are transfers from the Surface Water Operating Fund and interest earnings.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
SANITARY SEWER OPERATING FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2025
(with comparative totals for the year ended June 30, 2024)

	2025			
	Original And Final Budget	Actual	Variance with Final Budget	2024 Actual
REVENUES:				
Sanitary Sewer user charges	\$ 45,603,300	\$ 45,619,241	\$ 15,941	\$ 44,134,485
Fees - collected for other agencies	886,200	869,598	(16,602)	819,577
System development charges	70,000	46,589	(23,411)	203,690
Special assessment collections	5,000	17,088	12,088	7,574
Interest on investments	215,700	505,148	289,448	515,922
Miscellaneous income	501,220	692,395	191,175	687,733
Total revenues	47,281,420	47,750,059	468,639	46,368,981
EXPENDITURES:				
Materials and services	26,429,691	25,935,400	494,291	24,101,064
Special payments	1,327,900	1,267,551	60,349	1,212,298
Contingency	4,405,000	-	4,405,000	-
Total expenditures	32,162,591	27,202,951	4,959,640	25,313,362
Revenues over expenditures	15,118,829	20,547,108	5,428,279	21,055,619
OTHER FINANCING USES:				
Transfers to other funds	(20,802,784)	(20,802,784)	-	(23,399,300)
Net change in fund balance	(5,683,955)	(255,676)	5,428,279	(2,343,681)
Fund balance - beginning	7,190,579	7,762,351	571,772	10,106,032
Fund balance - ending	\$ 1,506,624	7,506,675	\$ 6,000,051	\$ 7,762,351
Adjustment to GAAP basis:				
System development charges receivable	212,022			
Capital assets (net of acc. depreciation and amortization)	273,443,506			
Lease receivable	99,173			
Interest receivable	98,855			
Assessments receivable	388,819			
Contracts receivable	2,000,000			
Subscription liabilities	(223,279)			
Interest payable	(5,543)			
Deferred inflows of resources	(107,769)			
Investment valuation	21,960			
Net position - GAAP basis	\$ 283,434,419			

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
SANITARY SEWER SYSTEM DEVELOPMENT CHARGE FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
 for the year ended June 30, 2025
 (with comparative totals for the year ended June 30, 2024)

	2025			
	Original And Final Budget	Actual	Variance with Final Budget	2024 Actual
REVENUES:				
System development charges	\$ 7,589,400	\$ 5,391,666	\$ (2,197,734)	\$ 4,191,045
Interest on investments	1,515,300	2,050,683	535,383	1,699,836
Total revenues	9,104,700	7,442,349	(1,662,351)	5,890,881
EXPENDITURES:				
Capital outlay	12,375,000	11,299,615	1,075,385	270,630
Contingency	3,093,750	-	3,093,750	-
Total expenditures	15,468,750	11,299,615	4,169,135	270,630
Revenues over (under) expenditures	(6,364,050)	(3,857,266)	2,506,784	5,620,251
OTHER FINANCING USES:				
Transfers to other funds	(8,542,783)	(8,542,782)	1	(7,078,451)
Net change in fund balance	(14,906,833)	(12,400,048)	2,506,785	(1,458,200)
Fund balance - beginning	50,509,900	50,880,971	371,071	52,339,171
Fund balance - ending	\$ 35,603,067	38,480,923	\$ 2,877,856	\$ 50,880,971
Adjustment to GAAP basis:				
Interest receivable		274,486		
Investment valuation		174,331		
Net position - GAAP basis		\$ 38,929,740		

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
DEBT SERVICE FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
 for the year ended June 30, 2025
 (with comparative totals for the year ended June 30, 2024)

	<u>2025</u>				
	Original Budget	Final Budget	Actual	Variance with Final Budget	2024 Actual
REVENUES:					
Assessments collected	\$ 100,000	\$ 100,000	\$ 94,065	\$ (5,935)	\$ 122,942
Interest on assessments	70,000	70,000	41,215	(28,785)	56,331
Interest on investments	<u>108,900</u>	<u>108,900</u>	<u>266,640</u>	<u>157,740</u>	<u>219,318</u>
Total revenues	<u>278,900</u>	<u>278,900</u>	<u>401,920</u>	<u>123,020</u>	<u>398,592</u>
EXPENDITURES:					
Principal	9,232,327	9,232,327	9,199,727	32,600	8,827,323
Interest	<u>3,806,295</u>	<u>3,806,295</u>	<u>3,756,295</u>	<u>50,000</u>	<u>3,943,663</u>
Total expenditures	<u>13,038,622</u>	<u>13,038,622</u>	<u>12,956,022</u>	<u>82,600</u>	<u>12,770,986</u>
Revenues over (under) expenditures	<u>(12,759,722)</u>	<u>(12,759,722)</u>	<u>(12,554,102)</u>	<u>205,620</u>	<u>(12,372,395)</u>
OTHER FINANCING SOURCES:					
Transfers from other funds	<u>12,928,167</u>	<u>13,139,132</u>	<u>12,845,565</u>	<u>(293,567)</u>	<u>11,958,874</u>
OTHER FINANCING USES:					
Transfers to other funds	<u>(1,438,826)</u>	<u>(4,419,411)</u>	<u>(4,419,411)</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>(1,270,381)</u>	<u>(4,040,001)</u>	<u>(4,127,948)</u>	<u>(87,947)</u>	<u>(413,521)</u>
Fund balance - beginning	<u>3,630,380</u>	<u>6,400,000</u>	<u>6,528,295</u>	<u>128,295</u>	<u>6,941,816</u>
Fund balance - ending	<u><u>\$ 2,359,999</u></u>	<u><u>\$ 2,359,999</u></u>	<u>2,400,347</u>	<u><u>\$ 40,348</u></u>	<u><u>\$ 6,528,295</u></u>
Adjustment to GAAP basis:					
Long-term contracts payable			(34,895,356)		
Long-term debt payable			(90,050,000)		
Capitalized bond premium			(11,655,236)		
Assessments receivable			1,613,432		
Interest receivable			13,812		
Interest payable			(380,752)		
Investment valuation			<u>10,696</u>		
Net position - GAAP basis			<u><u>\$ (132,943,057)</u></u>		

WATER ENVIRONMENT SERVICES
 (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, 2025
 (with comparative totals for the year ended June 30, 2024)

	2025				
	Original Budget	Final Budget	Actual	Variance with Final Budget	2024 Actual
REVENUES:					
Interest on investments	\$ 2,760,400	\$ 2,760,400	\$ 3,333,366	\$ 572,966	\$ 5,947,790
Capital contributions	2,000,000	2,000,000	-	(2,000,000)	44,146
Total revenues	4,760,400	4,760,400	3,333,366	(1,427,034)	5,991,935
EXPENDITURES:					
Capital outlay	62,811,500	62,811,500	53,483,446	9,328,054	32,265,963
Contingency	15,702,875	15,702,875	-	15,702,875	-
Total expenditures	78,514,375	78,514,375	53,483,446	25,030,929	32,265,963
Revenues over (under) expenditures	(73,753,975)	(73,753,975)	(50,150,080)	23,603,895	(26,274,027)
OTHER FINANCING SOURCES:					
Transfers from other funds	17,938,826	20,708,446	20,919,411	210,965	18,518,877
Net change in fund balance	(55,815,149)	(53,045,529)	(29,230,669)	23,814,860	(7,755,150)
Fund balance - beginning	92,012,857	92,012,857	99,962,657	7,949,800	107,717,807
Fund balance - ending	\$ 36,197,708	\$ 38,967,328	70,731,988	\$ 31,764,660	\$ 99,962,657
Adjustment to GAAP basis:					
Arbitrage liability			(1,620,123)		
Interest receivable			393,593		
Investment valuation			343,014		
Net position - GAAP basis			\$ 69,848,472		

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
SURFACE WATER OPERATING FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
 for the year ended June 30, 2025
 (with comparative totals for the year ended June 30, 2024)

	2025			
	Original And Final Budget	Actual	Variance with Final Budget	2024 Actual
REVENUES:				
Surface water user charges	\$ 6,906,100	\$ 6,820,870	\$ (85,230)	\$ 6,440,253
Interest on investments	157,900	245,022	87,122	199,457
Miscellaneous income	155,000	253,879	98,879	275,160
Total revenues	7,219,000	7,319,771	100,771	6,914,870
EXPENDITURES:				
Materials and services	6,121,400	5,427,065	694,335	4,756,366
Contingency	1,020,000	-	1,020,000	-
Total expenditures	7,141,400	5,427,065	1,714,335	4,756,366
Revenues over (under) expenditures	77,600	1,892,706	1,815,106	2,158,504
OTHER FINANCING USES:				
Transfers to other funds	(2,082,600)	(2,000,000)	82,600	(2,000,000)
Net change in fund balance	(2,005,000)	(107,294)	1,897,706	158,504
Fund balance - beginning	5,262,466	5,191,498	(70,968)	5,032,994
Fund balance - ending	\$ 3,257,466	5,084,204	\$ 1,826,738	\$ 5,191,498
Adjustment to GAAP basis:				
Capital assets (net of acc. depreciation and amortization)		27,473,777		
Interest receivable		26,942		
Interest payable		(1,280)		
Subscription liabilities		(64,273)		
Investment valuation		20,863		
Net position - GAAP basis	\$ 32,540,233			

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)
SURFACE WATER SYSTEM DEVELOPMENT CHARGE FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
for the year ended June 30, 2025
(with comparative totals for the year ended June 30, 2024)

	<u>2025</u>			
	Original And Final Budget	Actual	Variance with Final Budget	2024 Actual
REVENUES:				
System development charges	\$ 134,800	\$ 82,464	\$ (52,336)	\$ 56,700
Interest on investments	86,500	126,159	39,659	93,781
Total revenues	221,300	208,623	(12,677)	150,481
EXPENDITURES:				
Total expenditures	-	-	-	-
Net change in fund balance	221,300	208,623	(12,677)	150,481
Fund balance - beginning	<u>2,882,265</u>	<u>2,883,946</u>	<u>1,681</u>	<u>2,733,465</u>
Fund balance - ending	<u>\$ 3,103,565</u>	<u>3,092,569</u>	<u>\$ (10,996)</u>	<u>\$ 2,883,946</u>
Adjustment to GAAP basis:				
Interest receivable	18,583			
Investment valuation	14,390			
Net position - GAAP basis	<u>\$ 3,125,542</u>			

WATER ENVIRONMENT SERVICES
 (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, 2025
 (with comparative totals for the year ended June 30, 2024)

	<u>2025</u>			
	Original And Final Budget	Actual	Variance with Final Budget	2024 Actual
REVENUES:				
Interest on investments	\$ 350,900	\$ 449,904	\$ 99,004	\$ 321,253
Capital project participation	38,940	35,644	(3,296)	-
Federal grants	471,000	1,117,577	646,577	169,415
Miscellaneous	-	35,815	35,815	-
Total revenues	860,840	1,638,940	778,100	490,668
EXPENDITURES:				
Capital outlay	4,359,500	2,491,233	1,868,267	986,306
Contingency	1,089,875	-	1,089,875	-
Total expenditures	5,449,375	2,491,233	2,958,142	986,306
Revenues over (under) expenditures	(4,588,535)	(852,293)	3,736,242	(495,638)
OTHER FINANCING SOURCES:				
Revenue from bonds and other debts	162,400	623,621	461,221	296,268
Transfer from other funds	2,000,000	2,000,000	-	2,000,000
Total other financing sources	2,162,400	2,623,621	461,221	2,296,268
Net change in fund balance	(2,426,135)	1,771,328	4,197,463	1,800,630
Fund balance - beginning	11,695,718	11,283,218	(412,500)	9,482,588
Fund balance - ending	\$ 9,269,583	13,054,546	\$ 3,784,963	\$ 11,283,218
Adjustment to GAAP basis:				
Interest receivable		72,890		
Investment valuation		56,445		
Net position - GAAP basis	\$ 13,183,881			

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)
SUMMARY OF NET POSITION
BY FUND
 for the year ended June 30, 2025

Fund	Description	Net Position GAAP Basis
631	Sanitary Sewer Operating Fund	\$ 283,434,419
632	Sanitary Sewer System Development Charge Fund	38,929,740
635	Debt Service Fund	(132,943,057)
639	Sanitary Sewer Construction Fund	69,848,472
641	Surface Water Operating Fund	32,540,233
642	Surface Water System Development Charge Fund	3,125,542
649	Surface Water Construction Fund	<u>13,183,881</u>
Total Net Position		<u><u>\$ 308,119,230</u></u>

GLA2-PMP-03 VFD
FED FROM MCC
BUCKET #05K

GLA2-PMP-02 VFD
FED FROM MCC
BUCKET #05J

Statistical Section

STATISTICAL SECTION

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STATISTICAL SECTION

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

WES was formed on November 16, 2016, with no activity prior to July 1, 2017. As such, data for years prior to 2018 is not available for WES. Reference may be made to the prior fiscal year financial reports for WES' member districts, the Tri-City Service District, and Clackamas County Service District No. 1, for comparison with FYs 2025 through FY 2018 statistics.

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These schedules present information to help the reader assess the affordability of WES' current levels of outstanding debt and WES' ability to issue additional debt in the future. WES 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.

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

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

NET POSITION BY COMPONENT
 Last Ten Fiscal Years

Fiscal Year Ended June 30,	Net Investment			Total
	in Capital Assets	Restricted	Unrestricted	Net Position
2025	\$ 148,808,118	\$ 54,307,471	\$ 105,003,641	\$ 308,119,230
2024	101,418,912	71,384,254	116,467,661	289,270,827
2023	96,288,720	70,513,588	102,027,614	268,829,922
2022	103,989,587	80,504,866	67,900,451	252,394,904
2021	112,167,501	59,023,367	65,860,833	237,051,701
2020	122,723,333	42,554,081	63,647,718	228,925,132
2019	109,060,156	34,282,157	70,503,282	213,845,595
2018	35,210,690	2,971,058	14,308,920	52,490,668

Source: WES' Annual Comprehensive Financial Report

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

CHANGES IN NET POSITION
 Last Ten Fiscal Years

	2025	2024	2023	2022	2021 ⁽¹⁾	2020	2019	2018
Operating revenues:								
Sanitary Sewer user charges	\$ 45,619,241	\$ 44,134,485	\$ 42,256,191	\$ 40,803,347	\$ 40,379,418	\$ 38,869,238	\$ 36,790,480	\$ 8,542,389
Surface Water user charges	6,820,870	6,440,253	6,033,587	5,676,998	5,502,982	5,163,571	4,910,321	185,646
Intergovernmental revenues	-	-	-	-	-	-	-	375,145
Other operating revenues	1,731,118	1,717,243	1,513,312	1,120,103	987,048	1,361,246	1,007,099	285,617
Total operating revenues	54,171,229	52,291,981	49,803,090	47,600,448	46,869,448	45,394,055	42,707,900	9,388,797
Operating expenses:								
Contracted salaries and benefits	17,416,210	15,567,418	13,951,925	13,265,957	13,369,676	13,300,131	12,337,188	2,639,533
Professional services	1,960,732	1,701,241	2,103,735	2,119,084	1,559,926	2,135,318	1,181,977	408,852
Laboratory services	182,183	139,217	98,734	98,207	93,514	65,272	31,724	247,851
Other County services	3,549,069	3,408,612	2,852,981	2,717,765	3,046,288	2,879,695	2,897,557	606,616
Supplies	3,077,770	2,974,055	2,696,211	2,158,686	2,275,766	3,248,542	2,904,075	1,488,169
Vehicle expenses	914,151	957,806	864,843	885,459	930,344	791,322	815,631	181,037
Repairs and maintenance	1,040,473	1,214,286	1,094,346	1,019,710	958,052	579,479	960,286	88,552
Utilities	2,614,662	2,385,894	2,184,178	1,876,191	1,887,324	1,602,852	1,787,914	685,523
Insurance	584,939	529,474	464,209	480,045	394,858	439,037	404,918	163,480
Other expenses	1,121,622	1,090,920	1,265,867	1,305,430	1,729,112	815,143	849,742	173,503
Depreciation and amortization	16,280,354	14,435,717	16,935,862	16,576,384	20,664,890	20,031,956	20,082,869	2,571,997
Total operating expenses	48,742,165	44,404,640	44,512,891	42,502,918	46,909,750	45,888,747	44,233,881	9,255,113
Operating income (loss)	5,429,064	7,887,341	5,290,199	5,097,530	(40,302)	(494,692)	(1,525,981)	133,684
Nonoperating revenues (expenses):								
Interest income	7,860,712	6,377,148	4,749,033	895,174	1,080,151	1,762,557	1,806,268	189,261
Interest expense	(2,637,232)	(2,872,204)	(3,125,646)	(3,845,895)	(3,324,067)	(3,960,237)	(4,896,003)	-
Federal and state grants	1,243,915	926,533	-	41,796	216,180	173,504	-	-
Capital donations	-	(1,098,454)	-	-	-	-	-	-
Dispatchable power	-	-	-	11,300	11,300	69,100	69,100	-
Loss on disposal of capital assets	(157,969)	(167,148)	(133,895)	(564,227)	(440,983)	(197,017)	(45,338)	(4,761)
Total nonoperating revenues (expenses)	6,309,426	3,165,875	1,489,492	(3,461,852)	(2,457,419)	(2,152,093)	(3,065,973)	184,500
Income (loss) before contributions and special item	11,738,490	11,053,216	6,779,691	1,635,678	(2,497,721)	(2,646,785)	(4,591,954)	318,184
Contributions:								
System development charges	5,518,026	4,261,045	6,894,764	11,394,422	8,326,178	10,520,618	5,346,829	827,629
Capital contributions	1,591,887	5,126,644	2,760,563	2,313,103	2,298,112	7,205,704	5,034,881	145,208
Total contributions	7,109,913	9,387,689	9,655,327	13,707,525	10,624,290	17,726,322	10,381,710	972,837
Special item:								
Gain on transfer of operations	-	-	-	-	-	-	155,565,171	-
Change in net position	\$ 18,848,403	\$ 20,440,905	\$ 16,435,018	\$ 15,343,203	\$ 8,126,569	\$ 15,079,537	\$ 161,354,927	\$ 1,291,021

⁽¹⁾ In FY 2022, the FY 2021 operation expenses presentation was revised for new chart of accounts classifications.

Source: WES' Annual Comprehensive Financial Report

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

USER FEE REVENUE BY CUSTOMER TYPE
 Last Ten Fiscal Years

	2025	2024	2023	2022	2021	2020	2019	2018
Sanitary Sewer user charges								
Cities	\$ 16,667,503	\$ 16,029,545	\$ 15,274,838	\$ 14,999,551	\$ 14,784,587	\$ 14,346,181	\$ 13,801,878	\$ 8,308,939
Residential	13,982,953	13,641,288	13,513,091	12,987,330	12,771,561	12,194,781	11,400,628	196,864
Commercial	3,940,564	3,791,236	3,322,921	3,071,685	3,472,927	3,427,806	3,312,205	28,522
Industrial	1,289,644	1,288,996	1,438,035	1,475,608	1,389,421	1,134,271	884,807	-
Other	9,738,577	9,383,420	8,707,306	8,269,173	7,960,922	7,766,199	7,390,962	8,064
Total Sanitary Sewer user charges	\$ 45,619,241	\$ 44,134,485	\$ 42,256,191	\$ 40,803,347	\$ 40,379,418	\$ 38,869,238	\$ 36,790,480	\$ 8,542,389
Surface Water user charges								
Residential	\$ 2,453,915	\$ 2,312,627	\$ 2,224,181	\$ 2,064,970	\$ 2,007,986	\$ 1,826,448	\$ 1,713,821	\$ 148,106
Commercial	3,960,575	3,736,890	3,419,295	3,232,796	3,131,932	2,987,651	2,854,696	-
Other	406,380	390,736	390,111	379,232	363,064	349,472	341,804	37,540
Total Surface Water user charges	\$ 6,820,870	\$ 6,440,253	\$ 6,033,587	\$ 5,676,998	\$ 5,502,982	\$ 5,163,571	\$ 4,910,321	\$ 185,646

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

MONTHLY SEWER AND SURFACE WATER RATES
 Last Ten Fiscal Years

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Sewer Rates per EDU ⁽¹⁾								
Residential Customers								
Rate Zone 1	\$ 44.95	\$ 42.80	\$ 40.75	\$ 38.80	\$ 38.25	\$ 36.40	\$ 33.25	\$ 32.00
Rate Zone 2	53.60	52.85	52.15	51.45	51.25	50.55	48.15	-
Wholesale Customers								
Rate Zone 1	\$ 29.30	\$ 27.90	\$ 26.55	\$ 25.30	\$ 24.95	\$ 23.75	\$ 23.00	\$ 22.15
Rate Zone 2	37.95	37.95	37.95	37.95	37.95	37.90	36.10	-
Surface Water Rates per ESU ⁽²⁾								
Rate Zone 2	\$ 9.10	\$ 8.65	\$ 8.15	\$ 7.75	\$ 7.65	\$ 7.30	\$ 6.95	\$ -
Rate Zone 3	5.45	5.20	4.95	4.70	4.65	4.45	4.25	4.10

⁽¹⁾ EDU - Equivalent Dwelling Unit; For monthly billing purposes, residential sanitary sewer EDUs equal one dwelling unit; commercial sanitary sewer EDUs equal 1 EDU per each 1,000 cu ft or fraction thereof per month of metered water consumption.

⁽²⁾ ESU - Equivalent Service Unit; One surface water ESU is equal to 2,500 square feet of impervious surface area with the minimum user charge set at 1 ESU.

Source: WES' Records

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

SYSTEM DEVELOPMENT CHARGES AND REVENUES
 Last Ten Fiscal Years

	2025	2024	2023	2022	2021	2020	2019	2018
Sanitary Sewer								
System Development Charge/EDU ⁽¹⁾								
Rate Zone 1	\$ 9,100	\$ 8,860	\$ 8,600	\$ 8,120	\$ 8,005	\$ 7,850	\$ 3,490	\$ 3,125
Rate Zone 2	9,100	8,860	8,600	8,120	8,005	7,850	7,615	7,330
Total System Development Charge Revenue	\$ 5,435,562	\$ 4,204,345	\$ 6,822,106	\$ 11,256,111	\$ 8,158,439	\$ 10,359,524	\$ 5,206,286	\$ 827,629
Surface Water								
System Development Charge/ESU ⁽²⁾								
Rate Zone 2	\$ 246.50	\$ 240	\$ 233	\$ 220	\$ 215	\$ 211	\$ 205	\$ -
Total System Development Charge Revenue	\$ 82,464	\$ 56,700	\$ 72,658	\$ 138,311	\$ 167,739	\$ 161,094	\$ 140,543	\$ -

⁽¹⁾ EDU - Equivalent Dwelling Unit; a unit of measurement of sewer usage that is assumed to be equivalent to the usage of an average dwelling unit. For residential properties, EDUs are calculated based on the square footage of living area. For commercial properties, the calculation of EDUs is based on variables such as facility size, meter capacity, or business type.

⁽²⁾ ESU - Equivalent Service Unit; One ESU is equal to 2,500 square feet of impervious surface area. The number of ESUs attributable to a user's surface area is calculated in whole units, with the minimum charge set at 1 ESU.

Source: WES' Records

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

PRINCIPAL RATEPAYERS WITHIN WES⁽¹⁾
 Last Ten Fiscal Years

	2025		2024		2023		2022		2021		2020		2019		2018 ⁽¹⁾	
Customer	Revenue	Rank	Revenue	Rank												
City of Oregon City	\$ 5,796,439	1	\$ 5,465,347	1	\$ 5,143,239	2	\$ 5,149,204	1	\$ 4,985,657	2	\$ 4,776,650	2	\$ 4,621,023	2	\$ 4,313,782	1
City of Milwaukie	5,479,145	2	5,417,818	2	5,246,132	1	5,146,855	2	5,198,998	1	5,182,522	1	4,912,993	1		
City of West Linn	3,801,150	3	3,622,399	3	3,432,025	3	3,249,064	3	3,163,254	3	3,034,254	3	2,945,391	3	2,827,032	2
City of Gladstone	1,464,167	4	1,397,380	4	1,326,841	4	1,327,827	4	1,310,077	4	1,226,320	4	1,202,042	4	1,168,125	3
Forum Clackamas Campus	656,595	5	650,504	6	788,390	5	851,298	5	752,005	5	442,326	6	277,008	7		
Precision Castparts	597,061	6	668,237	5	570,746	6	636,542	6	552,083	6	571,400	5	556,110	5		
Kaiser Hospital	438,767	7	414,700	7	377,862	7	348,227	7	374,839	7	354,979	7	373,687	6		
Sun Country Village LLC	273,476	8	260,395	8	247,923	9	236,059	10	232,713	10	221,458	10				
Riverwalk Happy Valley Apartments	260,324	9	256,391	9	252,649	8	248,996	8	247,965	8	244,357	8	232,753	8		
GEPX Happy Valley LLC ⁽³⁾	254,983	10	250,881	10	246,920	10	243,124	9	242,063	9	238,351	9	227,029	9		
Crown Court Apartments	230,942	11	227,231	11	223,648	11	220,213	11	219,253	11	215,893	11	205,638	10		
Townhomes with a View Condo Assoc. ⁽²⁾	223,042	12	219,379	12	215,825	12	212,440	12	211,497	12	208,196	12	198,305	11		
Oak Acres Mobile Home Park	215,269	13	210,782	13	206,228	13	202,131	13	155,516	18	152,269	18	145,024	17		
Clackamas Trails Apartments	208,285	14	204,964	14	201,764	14	177,080	15	176,304	14	173,587	14	165,341	14		
Heirloom Investors LLC	196,401	15	193,211	15												
Clackamas Town Center	193,228	16	184,748	18	162,258	20			174,325	15	170,356	15	174,380	12		
The Overlook at Causey Lane	193,127	17	189,894	16	186,745	15	183,761	14	182,932	13	180,029	13	171,476	13		
Causey Village Condos	192,156	18	188,948	17	185,826	16										
Easton Ridge Apartments	182,242	19	179,273	19	176,399	17	173,655	16	172,889	16	170,210	16	162,124	15		
Riverbend Mobile Home Park	172,576	20	168,740	20	164,807	19	162,550	18								
Hawksridge Apartments					165,411	18	162,841	17	162,126	17	159,626	17	152,241	16		
CR Lake Crest Communities LLC							156,755	19								
Squire's Court Apartments							153,146	20	152,484	19	150,166	19	143,033	18		
Fred Meyer General Merchandise Office									140,802	20	134,636	20	133,963	19		
Stone Ridge Apartments													124,728	20		
Total	\$ 21,029,375		\$ 20,371,222		\$ 19,521,638		\$ 19,241,768		\$ 18,807,782		\$ 18,007,585		\$ 17,124,289		\$ 8,308,939	

⁽¹⁾ In FY 2018, the cities of Gladstone, Oregon City, and West Linn accounted for more than 95% of total user charges.

⁽²⁾ In FY 2021, customer account name changed from The Woods Apartments to Townhomes with a View Condo Assoc.

⁽³⁾ In FY 2022, customer account name changed from Big Reflections OR LLC to GEPX Happy Valley LLC.

Source: WES' Records

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WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

RATIOS OF OUTSTANDING DEBT BY TYPE
 Last Ten Fiscal Years

Fiscal Year	Revenue Bonds and Obligations	Loans Payable	Subscriptions & Leases	Total	Percentage of Personal Income	Per Capita
2025	\$ 101,705,236	\$ 34,895,356	\$ 287,552	\$ 136,888,144	N/A %	\$ 687
2024	110,158,144	36,131,462	321,716	146,611,322	N/A	738
2023	118,256,052	37,677,517	137,356	156,070,925	0.99	793
2022	125,883,961	36,000,583	4,843	161,889,387	1.14	836
2021	133,186,869	32,649,335	-	165,836,204	1.23	880
2020	89,433,491	20,999,100	-	110,432,591	0.92	598
2019	93,744,647	10,315,874	-	104,060,521	0.92	569
2018	-	-	-	-	-	-

N/A: Not available

Source: WES' Records

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)

OVERLAPPING GENERAL OBLIGATION BONDED DEBT ⁽¹⁾
June 30, 2025

Governmental Unit	Debt Outstanding	Percent Overlapping	Overlapping General Obligation Bonded Debt
Debt repaid with property taxes			
City of Gladstone	\$ 6,395,937	80.17 %	\$ 5,127,623
City of Oregon City	10,810,000	99.24	10,727,844
City of West Linn	24,420,000	96.93	23,670,306
Clackamas Community College	232,085,031	20.14	46,741,925
Clackamas County	88,689,500	14.75	13,081,701
Clackamas County Education Service District	26,816,648	15.34	4,113,674
Clackamas County Rural Fire Protection District #1	19,634,532	15.07	2,958,924
Clackamas County School District #115 (Gladstone)	16,001,933	76.96	12,315,088
Clackamas County School District #12 (North Clackamas)	576,755,981	0.27	1,557,241
Clackamas County School District #3J (West Linn/Wilsonville)	432,502,321	42.61	184,289,239
Clackamas County School District #46 (Oregon Trail)	62,000,487	100.00	62,000,487
Clackamas County School District #62 (Oregon City)	411,515,969	57.67	237,321,259
Clackamas County School District #7J (Lake Oswego)	372,682,000	0.31	1,155,314
Clackamas Soil & Water Conservation	4,643,000	14.75	684,843
Metro	904,080,000	4.03	36,434,424
Mt Hood Community College	65,925,000	17.86	11,774,205
Multnomah County Education Service District	58,415,817	1.54	899,604
Multnomah County School District #28J (Centennial)	61,155,932	8.67	5,302,219
Portland Community College	569,075,000	0.02	113,815
Tualatin Valley Fire & Rescue District	42,025,000	5.40	2,269,350
Other Debt			
City of Oregon City	7,737,090	99.24	7,678,288
City of West Linn	10,870,000	96.93	10,536,291
Clackamas Community College	11,145,000	20.14	2,244,603
Clackamas County Rural Fire Protection District #1	5,740,000	15.07	865,018
Clackamas County School District #12 (North Clackamas)	728,568	0.27	1,967
Clackamas County School District #62 (Oregon City)	48,041	57.67	27,705
Metro	6,495,000	4.03	261,749
Mt. Hood Community College	21,575,000	17.86	3,853,295
Multnomah County Education Service District	13,230,000	1.54	203,742
Port of Portland	24,170,000	3.66	884,622
Portland Community College	24,845,000	0.02	4,969
Tualatin Valley Fire & Rescue District	3,965,000	5.40	214,110
Total overlapping debt	\$ 4,116,178,787		\$ 689,315,444

⁽¹⁾ Overlapping governments are those that coincide, at least in part, with the geographic boundaries of WES. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of WES. The State of Oregon provides overlapping debt data based on real market valuation of properties for each jurisdiction.

WATER ENVIRONMENT SERVICES
(A Component Unit of Clackamas County, Oregon)

PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years

	2025	2024	2023	2022	2021	2020	2019
Gross Revenues							
Monthly Service Charges	\$ 35,772,608	\$ 34,545,193	\$ 33,014,940	\$ 31,480,794	\$ 31,097,813	\$ 29,686,628	\$ 27,898,923
Operating Payment from Cities	16,667,503	16,029,545	15,274,838	14,999,551	14,784,587	14,346,181	13,801,878
Interest Earnings	6,787,652	6,808,509	4,749,033	895,174	1,080,151	1,762,557	1,806,268
Miscellaneous Income	1,731,118	1,717,243	1,513,312	1,120,103	987,048	1,361,246	1,007,099
System Development Charges	5,518,026	4,261,045	6,894,764	11,394,422	8,326,178	10,520,618	5,346,829
Total Gross Revenues	\$ 66,476,907	\$ 63,361,535	\$ 61,446,887	\$ 59,890,044	\$ 56,275,777	\$ 57,677,230	\$ 49,860,997
Operating Expenses							
Operations and Maintenance	32,461,811	29,968,923	27,577,029	25,926,534	26,244,860	25,856,791	24,151,012
Total Operating Expenses	32,461,811	29,968,923	27,577,029	25,926,534	26,244,860	25,856,791	24,151,012
Net Operating Revenues	\$ 34,015,096	\$ 33,392,612	\$ 33,869,858	\$ 33,963,510	\$ 30,030,917	\$ 31,820,439	\$ 25,709,985
Revenue Bond Debt Service							
Series 2009A	-	-	-	-	-	-	1,228,150
Series 2009B	-	-	-	-	-	1,499,400	1,502,100
Series 2010	-	-	-	-	856,800	870,000	887,500
Series 2016	6,901,507	6,902,756	6,769,006	6,760,756	5,911,257	4,426,006	3,256,231
Series 2021	3,683,250	3,682,250	3,680,750	3,679,000	434,883	-	-
Total Revenue Bond Debt Service	\$ 10,584,757	\$ 10,585,006	\$ 10,449,756	\$ 10,439,756	\$ 7,202,940	\$ 6,795,406	\$ 6,873,981
Revenue Bonds Debt Service Coverage	3.21	3.15	3.24	3.25	4.17	4.68	3.74
Revenue Bonds Coverage without SDCs	2.69	2.75	2.58	2.16	3.01	3.13	2.96
Revenues Available for State Revolving Fund Loans							
State Revolving Fund Loans	\$ 23,430,339	\$ 22,807,606	\$ 23,420,102	\$ 23,523,754	\$ 22,827,977	\$ 25,025,033	\$ 18,836,004
State Revolving Fund Loan Debt Service							
R06224	110,456	110,987	111,518	112,050	112,581	106,208	106,208
R95030	2,260,809	2,074,993	1,131,585	728,979	500,000	-	-
R95031	-	-	-	-	-	-	-
Total State Revolving Loan Debt Service	\$ 2,371,265	\$ 2,185,980	\$ 1,243,103	\$ 841,029	\$ 612,581	\$ 106,208	\$ 106,208
Revenues Available for Other Purposes	\$ 21,059,074	\$ 20,621,626	\$ 22,176,999	\$ 22,682,725	\$ 22,215,396	\$ 24,918,825	\$ 18,729,796

Source: WES' Records

In Fiscal Year 2025, connection charges and capital charge revenues were grouped with system development charges. Prior-year amounts were reclassified for comparability.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last Ten Fiscal Years

Ended June 30,	Population Estimate	Personal Income ⁽¹⁾	Per Capita Personal Income ⁽¹⁾	Unemployment Rate (PMSA)
2025	199,367	N/A	N/A	4.9 %
2024	198,620	N/A	N/A	3.7
2023	196,913	\$ 15,806,009,597	\$ 80,269	3.3
2022	193,677	14,163,405,333	73,129	3.3
2021	188,381	13,469,995,024	71,504	4.9
2020	184,648	11,963,528,568	64,791	11.2
2019	182,901	11,289,747,126	61,726	3.7
2018	80,045	4,691,277,360	58,608	3.7

N/A: Not available

⁽¹⁾ Figures are for calendar year; Personal Income and Per Capita Income for 2024 and 2025 are not available.

Source: Center for Population Research and Census, U.S. Census Bureau, U.S. Bureau of Labor Statistics, and Bureau of Economic Analysis

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

PRINCIPAL EMPLOYERS ⁽¹⁾
 Current Year and Nine Years Ago

Employer	2025			2016		
	Employees	Rank	Percentage of Total ⁽²⁾	Employees	Rank	Percentage of Total ⁽²⁾
Intel Corp.	23,192	1	.02 %	23,100	1	.02 %
Oregon Health & Sciences University	20,917	2	.02	19,603	3	.02
Providence Health & Services	20,700	3	.02	22,328	2	.02
Kaiser Permanente	13,086	4	.01	15,522	4	.01
Nike Inc.	10,700	5	.01	9,000	7	.01
Fred Meyer	9,000	6	.01	13,087	5	.01
Portland Public Schools	7,638	7	.01	7,111	8	.01
City of Portland	6,631	8	.01	6,753	10	.01
Multnomah County	5,626	9	.00	6,317	9	.01
Beaverton School District	5,432	10	.00			
Legacy Health				12,514	6	.01
Total	<u>122,922</u>		.11 %	<u>135,335</u>		.13 %

Sources:

⁽¹⁾ Statistics are the latest available data published in the Portland Business Journal *Book of Lists 2025* and *Book of Lists 2016*. The Business Journal Book of Lists ranks Portland Metropolitan Area employers.

⁽²⁾ Total Portland Metropolitan Area employment used to calculate percentages is from the United States Department of Labor Bureau of Labor Statistics.

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
 Last Ten Fiscal Years

	2025	2024	2023	2022	2021	2020	2019	2018
Function								
Business Services	24.8	24.7	25.7	21.7	21.8	22.2	22.6	2.8
Capital Planning and Management	9.9	18.4	16.6	17.4	17.4	17.0	16.4	4.3
Environmental Services	24.3	18.2	19.3	20.5	19.4	19.4	19.6	2.5
Operations	59.0	56.7	54.4	56.4	53.4	53.4	51.4	18.1
Total	<u>118.0</u>	<u>118.0</u>	<u>116.0</u>	<u>116.0</u>	<u>112.0</u>	<u>112.0</u>	<u>110.0</u>	<u>27.7</u>

In FY 2018, the Department Water Environment Services was responsible for the general management and operation of CCSD No. 1 and WES. Employees when possible, directly charged their time to the appropriate entity. Otherwise, their time was allocated. Hence, employee counts listed above are expressed in full-time equivalents devoted to WES' operations.

Source: WES' Records

WATER ENVIRONMENT SERVICES
 (A Component Unit of Clackamas County, Oregon)

OPERATING AND CAPITAL INDICATORS
 Last Ten Fiscal Years

	2025	2024	2023	2022	2021	2020	2019	2018
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Sanitary Sewer

Number of Treatment Plants	5	5	5	5	5	5	5	1
Number of Pump Stations	23	23	23	23	23	23	23	4
Miles of Pipe	364.74	362.90	360.37	358.38	356.95	355.34	348.57	19.39
<u>Tri-City Water Resource Recovery Facility</u>								
Hydraulic treatment capacities (in million gallons/day)	11.90	11.90	11.90	11.90	11.90	11.90	11.90	11.90
System Demand - Current flows (in million gallons/day)	10.37	11.34	10.56	11.62	9.84	8.11	8.31	9.90
<u>Kellogg Creek Water Resource Recovery Facility</u>								
Hydraulic treatment capacities (in million gallons/day)	10.129	10.129	10.129	10.129	10.129	10.129	10.129	-
System Demand - Current flows (in million gallons/day)	6.93	6.79	6.74	7.12	6.40	5.65	6.09	-
Estimated Sanitary EDUs ⁽¹⁾	87,774	86,769	84,727	82,950	81,996	81,267	79,194	30,152
Number of New Connections	597	475	794	1,367	992	1,260	727	262

Surface Water

Catch Basins / Manholes	19,171	19,155	19,168	19,001	17,648	16,188	15,626	260
Miles of Pipe	331.21	331.20	330.34	330.12	328.92	328.74	325.20	4.67
Estimated Surface Water ESUs ⁽²⁾	60,406	59,901	59,801	59,085	58,208	57,054	56,091	3,813

In Fiscal Years 2021 and 2023, this chart was revised for prior year data.

⁽¹⁾ EDU - Equivalent Dwelling Unit; Residential Sanitary Sewer EDUs equal one dwelling unit; Commercial Sanitary Sewer EDUs equal 1 EDU per 1,000 cubic feet or fraction thereof per month of metered water consumption.

⁽²⁾ ESU - Equivalent Service Unit; One Surface Water ESU is equal to 2,500 square feet of impervious surface area with the minimum user charge set at 1 ESU.

Source: WES Records

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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
Water Environment Services
Oregon City, Oregon

We have audited, in accordance with the 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, the financial statements of Water Environment Services (WES), a component unit of Clackamas County, Oregon, which comprise the statement of net position as of June 30, 2025, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Water Environment Services' basic financial statements as listed in the table of contents, and have issued our report thereon dated November 20, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Water Environment Services' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Water Environment Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Water Environment Services' internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Water Environment Services' financial statements are free from 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 financial statements. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

Portland, Oregon

November 20, 2025

Report of Independent Auditors Required by Oregon State Regulations

The Board of County Commissioners of
Clackamas County, Oregon, as Governing Body of
Water Environment Services
Oregon City, Oregon

We have audited, 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, the financial statements of Water Environment Services, a component unit of Clackamas County, Oregon, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Water Environment Services' basic financial statements, and have issued our report thereon dated November 20, 2025.

Compliance

As part of obtaining reasonable assurance about whether Water Environment Services' basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules (OAR) 162-010-0000 to 162-010-0330, of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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

- Public fund deposits
- Indebtedness
- Budget
- Insurance and fidelity bonds
- Programs funded from outside sources
- Investments
- Public contracts and purchasing

In connection with our testing, nothing came to our attention that caused us to believe Water Environment Services was not in substantial compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of ORS as specified in OAR 162-010-0000 through 162-010-0330 of the Minimum Standards for Audits of Oregon Municipal Corporations, with the exception of the following:

- For the year ended June 30, 2025, Water Environment Services did not comply with the publication requirements of ORS 279C.360 for one public improvement contract. Although the contract advertisement was electronically published on OregonBuys, it was not published in a newspaper of general circulation, as required.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Water Environment Services' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Water Environment Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Water Environment Services' internal control.

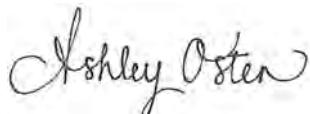
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Board of County Commissioners and management of Water Environment Services and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



Ashley Osten, Principal, for
Baker Tilly US, LLP
Portland, Oregon
November 20, 2025



CLACKAMAS
WATER
ENVIRONMENT
SERVICES

