

REGIONAL WASTEWATER PROGRAM ANNUAL FINANCIAL REPORT



Metropolitan Wastewater Management Commission



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June 30, 2017 and June 30, 2016

Metropolitan Wastewater Management Commission



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**METROPOLITAN WASTEWATER MANAGEMENT COMMISSION
OF THE EUGENE-SPRINGFIELD METROPOLITAN AREA**

ANNUAL FINANCIAL REPORT

For the Years Ended June 30, 2017 and 2016

Metropolitan Wastewater Management Commission



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METROPOLITAN WASTEWATER MANAGEMENT COMMISSION

ANNUAL FINANCIAL REPORT

For the years ended June 30, 2017 and 2016

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Metropolitan Wastewater Management Commission



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Introductory Section

Metropolitan Wastewater Management Commission



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Metropolitan Wastewater Management Commission
Of the Eugene-Springfield Metropolitan Area

June 30, 2017

GOVERNING BOARD

Bill Inge
1831 W. Broadway
Eugene, OR 97402

Lane County
Citizen Representative
President

Peter Ruffier
2724 Malibu Way
Eugene, OR 97405

Eugene
Citizen Representative
Vice-President

George Brown - June 2016 – December 2016
George Poling - January 2017 – March 2017
Vacant – April 2017 – June 2017
125 E 8th Ave., 2nd Floor
Eugene, OR 97401

Eugene
Council Representative

Faye Stewart
125 E. 8th Ave.
Eugene, OR 97401

Lane County
Lane County Commissioner

Joe Pishioneri
961 S 70th Street
Springfield, OR 97478

Springfield
Council Representative

Doug Keeler
3905 Hayden Bridge Rd.
Springfield, OR 97477

Springfield
Citizen Representative

Walt Meyer
3987 Brae Burn Dr.
Eugene, OR 97405

Eugene
Citizen Representative

ADMINISTRATION

225 Fifth Street
Springfield, Oregon 97477

Anette Spickard

MWMC Executive Officer

Matt Stouder

MWMC General Manager

Dave Breitenstein

Interim Wastewater Division Director

Robert J. Duey

MWMC Finance Officer

Metropolitan Wastewater Management Commission



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Financial Section

Metropolitan Wastewater Management Commission



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Independent Auditor's Report

Metropolitan Wastewater Management Commission



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GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT

Governing Board
Metropolitan Wastewater Management Commission
225 5th Street
Springfield, Oregon 97477

Report on the Financial Statements

We have audited the accompanying statements of net position of Metropolitan Wastewater Management Commission (MWMC) as of June 30, 2017 and 2016, 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 MWMC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MWMC's preparation and fair presentation of the financial statements 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 MWMC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan Wastewater Management Commission as of June 30, 2017 and 2016, 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.

Other Matters

Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) be presented to supplement the basic financial statements. Such information, 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 MD&A 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.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise MWMC's basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental 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. Such 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards


In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of MWMC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 MWMC's internal control over financial reporting and compliance.

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 22, 2017, on our consideration of MWMC's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules.

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.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By:  _____
Ryan T. Pasquarella, A Shareholder
December 22, 2017

Metropolitan Wastewater Management Commission



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Management's Discussion and Analysis

Metropolitan Wastewater Management Commission



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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Metropolitan Wastewater Management Commission (MWMC), we offer readers of MWMC's financial statements this narrative overview and analysis of the financial activities of MWMC for the fiscal year ended June 30, 2017. Please read it in conjunction with MWMC's basic financial statements, which begin on page 10.

Mission

The purpose of the MWMC is to protect health, safety and the environment by providing high quality wastewater management services to the Eugene-Springfield metropolitan area. The MWMC and its regional partners are committed to providing these services in a manner that is effective, efficient, and meets customer service expectations. Since the mid-1990's, the Commission and staff have worked together to identify key outcome areas within which to focus the annual work plan and budget priorities, as well as planning capital and construction administration.

Responsibility and Controls

The City of Springfield performs all administrative duties, as well as planning and capital construction of major capital assets for the MWMC in accordance with the provisions of an intergovernmental service agreement among the City of Springfield, the City of Eugene, and MWMC.

The City of Eugene performs all operations and maintenance duties for the MWMC in accordance with the provisions of the intergovernmental service agreement among the City of Eugene, the City of Springfield, and MWMC.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources at June 30, 2017 were \$215.5 million and exceeded liabilities by \$155.8 million (i.e. net position). The increase in net position of \$8.4 million was the result of a combination of a rate increase and a reduction of debt service. Of the total net position, \$4.9 million is restricted for capital improvements, \$78.4 million represents net investment in capital assets, \$.6 million for debt service, and \$71.8 million is unrestricted and available for future appropriation.
- Operating revenues for the year were \$32.4 million. This is an increase of 3.9% from fiscal year 2016 operating revenue of \$31.2 million. Fiscal year 2016 had a 3.5% increase from 2015 increasing from \$30.2 million to \$31.2 million
- Total operating and maintenance expenses for the year were \$13.4 million and the total administration expenses were \$3.4 million compared to the prior year when expenses were \$14.9 and \$3.6 million respectively, and 2015 where they were \$10 and \$2.8 million respectively.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of MWMC's financial condition and performance.

The financial statements report information about MWMC using the accrual basis of accounting. As such, revenues are recognized when they are earned and expenses are recognized when they are incurred.

The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net position provides information about the nature and amount of resources and obligations at year-end. The statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and information on how the net position changed during the year. The statement of cash flows presents changes in cash and cash equivalents resulting from operational, capital and related financing, and investing activities. This statement presents information about cash receipts and cash disbursements, without consideration of the earnings event, when an obligation occurs, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about MWMC's accounting policies, significant account balances and activities, material risks, obligations, commitments, and contingencies.

The financial statements represent a consolidation of three budgetary funds: the Regional Wastewater Fund, the Regional Wastewater Capital Fund, and the Regional Wastewater Bond Capital Fund. For financial reporting purposes, management considers the activities relating to the operation of wastewater management to be of a unitary nature and they are reported as such. For operational purposes, the accounts of wastewater management are organized on the basis of funds, each of which is considered a separate accounting entity. Supplementary information comparing the budget to actual revenues and expenses is provided.

The financial statements were prepared by City of Springfield staff from the detailed books and records of MWMC. The financial statements were audited during the independent external audit process.

Financial Analysis

The following comparative condensed financial statements serve as the key financial data and indicators for management, monitoring, and planning.

CONDENSED FINANCIAL STATEMENTS
Statements of Net Position

	June 30,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 93,313,107	\$ 83,217,275	\$ 113,788,853
Capital assets, net, where applicable, of accumulated depreciation	<u>118,992,082</u>	<u>122,974,232</u>	<u>127,022,500</u>
Total assets	<u>212,305,189</u>	<u>206,191,507</u>	<u>240,811,353</u>
Deferred outflows of resources	<u>3,237,587</u>	<u>3,584,183</u>	<u>-</u>
Current liabilities	6,548,006	5,866,035	8,000,720
Long-term liabilities	<u>53,208,828</u>	<u>56,489,753</u>	<u>90,310,045</u>
Total liabilities	<u>59,756,834</u>	<u>62,355,788</u>	<u>98,310,765</u>
Net position:			
Net investment in capital assets	78,386,308	79,714,451	52,076,163
Restricted for capital improvement	4,908,728	4,798,029	4,257,063
Restricted for debt service	641,728	641,728	8,770,908
Unrestricted	<u>71,849,178</u>	<u>62,265,694</u>	<u>77,396,454</u>
Total net position	<u>\$ 155,785,942</u>	<u>\$ 147,419,902</u>	<u>\$ 142,500,588</u>

The largest portion of MWMC's net position is net investment in capital assets, followed by unrestricted assets, and then the restricted amounts held for investment in the capital improvement plan and finally, the remaining amount that is restricted for debt service.

Statements of Revenues, Expenses, and Changes in Net Position

	June 30,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 32,443,512	\$ 31,222,377	\$ 30,166,903
Operations & maintenance	(13,396,494)	(14,933,988)	(9,978,175)
Administration	(3,385,618)	(3,630,803)	(2,884,378)
Depreciation	<u>(8,264,162)</u>	<u>(8,264,304)</u>	<u>(7,911,295)</u>
Operating income	7,397,238	4,393,282	9,393,055
Non-operating revenues (expenses), net (includes capital contributions)	<u>968,802</u>	<u>526,032</u>	<u>(1,143,049)</u>
Change in net position	<u>\$ 8,366,040</u>	<u>\$ 4,919,314</u>	<u>\$ 8,250,006</u>

Operating revenues increased by 3.9% from fiscal year 2016 to 2017 and 3.5% from fiscal year 2015 to 2016. This increase was primarily due to the increases in user fees and a significant increase in septic hauler revenues.

Operating expenses decreased by 6.6% overall from fiscal year 2016. This is almost entirely due to the reporting adjustments for pension liabilities leveling out from the upward swing in pension expense experienced in the prior fiscal year.

Operating expenses for the year ended June 30, 2016 increased by 31% from the previous year. The increase was attributed largely to the Cities of Springfield and Eugene (from whom MWMC contracts its employees) implementing a new accounting and reporting standard for pensions in 2015 that resulted in a prior period adjustment and increased pension costs going forward. To further complicate matters, the State's Legislature passed pension reforms in a prior year that resulted in the Cities PERS net pension liability becoming a net pension asset in 2015. The reduction of pension expenses that resulted from this legislation was allocated across all business-type activities and resulted in significant decreases in expenses in 2015 compared to previous years. That was a temporary decrease as the PERS legislation was subsequently challenged in the courts and overturned and we saw a large adjustment reversing that decrease in 2016. The impact of the legislation was a \$2.2 million decrease in expenses in 2015 and a \$3 million increase in personnel expenses in 2016.

If we were to remove the impact of these adjustments to net pension liability, operating expenses increased 1.4% from fiscal year 2016 to fiscal year 2017. The increase was mostly related to personnel costs for operations and administration, with materials and services staying relatively flat. Non-operating expenses (interest and bond costs) decreased by 54% from fiscal year 2016 primarily due to the interest expense decreasing as debt service dropped by half when the 2006 revenue bonds were retired at the end of last fiscal year. Non-operating income decreased by 43% because the gain on bond refunding in 2016, an event that is rare for the MWMC, was not repeated in the current fiscal year.

Capital Assets

MWMC's investment in capital assets as of June 30, 2017 was \$119 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, and other assets. The net decrease in the MWMC's investment in capital assets for the current fiscal year was 3.2%. MWMC has added assets this year as part of the continuing capital improvement plan in place for the facilities upgrades, but the increase in assets was not as high as the annual depreciation.

Major capital asset events during the current fiscal year included the following:

- Work continued on the Biogas Co-generation system replacement project with expenses of \$.3 million spent in FY17.
- Work continued on Digestion Capacity Increase, with expenses of \$1.7 million in the current year.
- Operations & Maintenance Building Improvements work continued, spending \$0.7 million in the current year.
- \$77,000 was spent on the Electrical Distribution system in FY17.
- Planning and design work continued for the Thermal Load project spending \$180,000 in the current year.

MWMC's Capital Assets
(net of depreciation)

	June 30,		
	2017	2016	2015
Land	\$ 7,731,550	\$ 7,731,550	\$ 7,731,550
Construction in progress	6,986,921	4,061,186	6,137,343
Buildings	53,094,898	57,403,901	61,401,771
Machinery and equipment	49,062,873	51,584,667	49,289,088
Other assets	2,115,840	2,192,928	2,462,748
Total	\$ 118,992,082	\$ 122,974,232	\$ 127,022,500

Debt Administration:

At the end of the current fiscal year, the MWMC had total bonded debt outstanding (net of premium and discounts) of \$34.8 million, all of which is secured solely by sewer revenue sources. The 2006 and 2008 revenue bonds reported in prior years were refunded and replaced with the 2016 revenue bond with the balance referenced above. Notes payable were comprised entirely of State Revolving Fund Loans (SRF) which were obtained as additional funding to implement the Facilities Plan at more advantageous interest rates than would result from issuing another revenue bond.

Additional information on the MWMC's capital assets and related debt can be found in Note F and Note H, beginning on page 18 of this report.

Economic Factors and Next Year's Budget and Rates:

For the year ended June 30, 2017, MWMC approved a 2% rate increase that was effective July 1, 2016 (a 2.0% increase was effective July 1, 2015). The new rate resulted in an average residential billing of \$25.1 per month based on typical residential consumption of 5,000 gallons. The budget included an annual capital contribution of \$11.3 million in order to fund implementation of the Facilities Plan. The budget also reflected the activities of a very large capital improvement program that will span at least 20 years and is currently estimated to cost around \$242 million. In May of 2016, the MWMC refunded and replaced the 2008 revenue bond with the 2016 revenue bond at a lower interest rate. At the same time, the 2006 revenue bond was paid in full, and the funds previously budgeted for debt service on that bond are now being used to fund the capital program with an increased capital contribution.

The FY 2017-18 budget reflects an 3% rate increase over the 2017 rates. The rates fund operations, administrative services, debt service, capital contributions, and satisfy bond coverage requirements. The new budget also includes an annual capital contribution of \$14 million in order to fund the Facilities Plan.

Requests for Information

This financial report is designed to provide our citizens and rate payers with a general overview of the finances for those funds maintained by the MWMC and to show MWMC's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

MWMC Accountant
City of Springfield
225 Fifth Street,
Springfield, OR 97477

Basic Financial Statements

Metropolitan Wastewater Management Commission



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Metropolitan Wastewater Management Commission
Comparative Statements of Net Position

	June 30,	
	2017	2016
ASSETS		
Cash and cash equivalents		
Unrestricted	\$ 73,150,220	60,945,958
Restricted	16,094,130	17,650,430
Accounts receivable	60,144	61,471
Intergovernmental receivable, net	2,879,012	3,096,205
Accrued interest	173,189	182,281
Prepaid expenses	36,865	-
Deposits	700,000	700,000
Notes receivable (System Development Charges)	219,547	580,930
Capital assets:		
Land and work in progress	14,718,471	11,792,736
Other capital assets, net of accumulated depreciation	104,273,611	111,181,496
Total assets	212,305,189	206,191,507
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge for debt refunding	3,237,587	3,584,183
LIABILITIES		
Current liabilities:		
Accounts and contracts payable	2,406,051	1,803,215
Other accrued liabilities	43,480	71,983
Interest payable	281,539	304,211
Current portion of notes payable	1,077,926	1,048,619
Current portion of revenue bonds payable	2,725,000	2,625,000
Unearned revenues	14,010	13,007
Total current liabilities	6,548,006	5,866,035
Long-term liabilities:		
Due to other governments	8,195,095	7,173,145
Notes payable	12,968,659	14,046,585
Revenue bonds payable (net of unamortized premium, and current portion)	32,045,074	35,270,023
Total long-term liabilities	53,208,828	56,489,753
Total liabilities	59,756,834	62,355,788
NET POSITION		
Net investment in capital assets	78,386,308	79,714,451
Restricted for capital improvement	4,908,728	4,798,029
Restricted for debt service	641,728	641,728
Unrestricted	71,849,178	62,265,694
Total net position	\$ 155,785,942	\$ 147,419,902

The accompanying notes are an integral part of these statements.

Metropolitan Wastewater Management Commission
Comparative Statements of Revenues, Expenses and Changes in Net Position

	For the years ended June 30,	
	2017	2016
Operating revenues:		
Sewer user fees	\$ 32,389,993	\$ 31,208,778
Other operating receipts	53,519	13,599
Total operating revenues	32,443,512	31,222,377
Operating expenses:		
Operations and maintenance	13,396,494	14,933,988
Administration	3,385,618	3,630,803
Depreciation	8,264,162	8,264,304
Total operating expenses	25,046,274	26,829,095
Operating income	7,397,238	4,393,282
Non-operating revenues (expenses):		
Interest income	858,398	651,251
Interest expense	(1,611,275)	(3,358,331)
Bond costs	-	(176,776)
Lease income	51,771	50,537
Gain (loss) on disposal of assets	36,632	14,673
Gain on bond refunding	-	915,528
Miscellaneous revenue	28,954	98,753
Total non-operating revenues (expenses)	(635,520)	(1,804,365)
Income before contributions	6,761,718	2,588,917
Capital contributions	1,604,322	2,330,397
Change in net position	8,366,040	4,919,314
Net position, beginning of year	147,419,902	140,326,224
Prior period adjustment - Note I	-	2,174,364
Net position, beginning of year, as restated	147,419,902	142,500,588
Net position, end of year	\$ 155,785,942	\$ 147,419,902

The accompanying notes are an integral part of these statements.

Metropolitan Wastewater Management Commission
Comparative Statement of Cash Flows

	For the year ended June 30,	
	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 32,608,513	\$ 31,407,218
Cash paid to other governments	(9,794,401)	(7,013,215)
Cash paid to suppliers for goods and services	(5,428,293)	(8,847,033)
Other operating receipts	54,522	15,766
Net cash provided by operating activities	<u>17,440,341</u>	<u>15,562,736</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,254,842)	(4,152,651)
Proceeds from sale of capital assets	38,416	50,041
Proceeds of capital contributions	1,604,322	2,330,397
Proceeds from issuance of notes payable	-	69,510
Principal paid on notes payable	(1,048,619)	(754,276)
Principal paid on revenue bonds payable	(2,778,353)	(40,232,160)
Costs of bond refunding	-	(176,776)
Interest payments	(1,633,947)	(3,752,640)
Net cash used in capital and related financing activities	<u>(8,073,023)</u>	<u>(46,618,555)</u>
Cash flows from investing activities:		
Interest received	867,490	754,704
Notes receivable issued	(149,589)	(310,137)
Cash received on notes receivable	510,972	338,351
Lease income	51,771	50,537
Net cash provided by investing activities	<u>1,280,644</u>	<u>833,455</u>
Net increase (decrease) in cash and investments	10,647,962	(30,222,364)
Cash and investments, beginning of year	<u>78,596,388</u>	<u>108,818,752</u>
Cash and investments, end of year	<u>\$ 89,244,350</u>	<u>\$ 78,596,388</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 7,397,238	\$ 4,393,282
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,264,162	8,264,304
Changes in assets and liabilities:		
Intergovernment receivable	217,193	198,440
Other accounts receivable	1,327	-
Prepaid expenses	(36,865)	19,107
Accounts and contracts payable	602,836	(400,957)
Due to other governments	993,447	3,086,393
Unearned revenue	1,003	2,167
Net cash provided by operating activities	<u>\$ 17,440,341</u>	<u>\$ 15,562,736</u>

The accompanying notes are an integral part of these statements.

Metropolitan Wastewater Management Commission



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METROPOLITAN WASTEWATER MANAGEMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Metropolitan Wastewater Management Commission (MWMC) was established on February 9, 1977 through an intergovernmental agreement between Lane County and the Cities of Eugene and Springfield. It was formed to construct, operate, and maintain regional sewage facilities. The Commission is composed of seven voting members from Eugene, Springfield, and Lane County. Three of the seven members are elected officials from each of the partner agencies' governing bodies.

The financial operations of MWMC are reported as an entity using enterprise fund accounting. It is MWMC's intent that the costs of providing services to users on a continuing basis will be financed or recovered primarily through an equitable fee levied on all user classes.

Reporting Entity

These financial statements include all funds, organizations, departments, and offices that are not legally separate from the MWMC.

The City of Springfield performs all administrative duties and construction of major capital assets for MWMC in accordance with the provisions of a July 14, 1983 service agreement, which was updated and reaffirmed in 2005. The City of Eugene performs all operations and maintenance duties for MWMC under the same updated service agreement. The agreement is part of an arrangement among the Cities of Eugene and Springfield and MWMC whereby the two Cities perform all necessary operational and staff support activities of MWMC.

Basis of Accounting

The financial operations of MWMC are accounted for using the accrual basis of accounting. As such, revenues are recognized when they are earned and expenses are recognized when they are incurred.

All activities of MWMC are accounted for within three proprietary (enterprise) funds. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to a private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to MWMC is determined by its measurement focus. The transactions of MWMC are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets less total liabilities) is segregated into four categories: net investment in capital assets; restricted for capital improvements; restricted for debt service; and unrestricted net position.

MWMC distinguishes operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services to users. The principal operating revenues involve charges for services and the major operating expenses include the costs of plant operation and maintenance, administration, and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported in these financial statements as non-operating revenues and expenses.

METROPOLITAN WASTEWATER MANAGEMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and Investments

MWMC participates in a cash and investment pool maintained by the City of Springfield as well as a separate MWMC LGIP account. The amount reported as cash and investments is the MWMC share of the total City of Springfield cash and investment pool in addition to the separate MWMC LGIP account. As of June 30, 2017, MWMC does not maintain investments separate from the investment pools.

State statutes authorize the City to invest in obligations of the U.S. Treasury and its agencies, bankers' acceptances, high grade commercial paper, the State of Oregon Local Government Investment Pool, and repurchase agreements.

Fair Value Measurements

Investments are stated at fair value.

Fair value is defined as the price that would be received at the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes fair value measurements within the hierarchy established by GASB Statement 72. This hierarchy defines three levels of inputs used to assess fair value which allows financial statement users to identify the level of reliability and determine variance risk between actual amounts received during a sale of assets or transfer of liabilities to that which is reported in the financial statements for the measurement date.

For purpose of the statement of cash flows, cash and investments in the City-wide investment pool (including restricted cash, investments and LGIP) are considered cash and cash equivalents. The pool has the general characteristics of a demand deposit account for MWMC in that MWMC may deposit additional cash at any time and may withdraw cash at any time without prior notice or penalty.

Accounts Receivable

The municipal water utilities for the Cities of Eugene and Springfield bill and collect sewer user fees. The collected amounts are due to MWMC. Accordingly, MWMC records the amounts due from the local water utilities as its accounts receivable. Both utilities have historically collected over 99% of accounts receivable, therefore only a small allowance for uncollectible amounts is recorded.

Restricted Assets

Assets whose use is restricted for construction or other purposes by provisions of state law, grants, bond or other agreements, are segregated.

When both restricted and unrestricted resources are available for use, it is MWMC's practice to use restricted resources first, when applicable, then unrestricted resources as they are needed.

Capital Assets

All capital assets are valued at historical cost or estimated historical cost. Cost includes labor, materials, and related indirect costs. The cost of additions, renewals, and betterments over \$10,000 are capitalized. Repairs and minor replacements are charged to operating expenses.

All depreciation is accumulated and shown as a reduction of historical costs reported on the Statement of Net Position. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. Upon disposal of such assets, the accounts are relieved of the related historical costs and accumulated depreciation and resulting gains and losses are reflected in income.

METROPOLITAN WASTEWATER MANAGEMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The estimated useful lives agree with those used for cost analysis purposes as required by federal regulations. They are as follows:

Plant and buildings	10 – 50 years
Machinery and equipment	1 – 50 years

Interest is capitalized on assets acquired with tax exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Accumulated Unpaid Vacation, Sick Pay and Other Benefit Amounts

The portions of accumulated unpaid vacation, sick, and compensatory time that are not expected to be paid within the year are reported as long-term liabilities as “due to other governments” since all employees are contracted from the cities of Eugene and Springfield.

Long-term Debt

Long-term debt is reported as a liability in the Statement of Net Position. Bond issuance costs are expensed in full in the year incurred and deferred amounts on refunding are amortized over the life of the new debt. Bond premiums and discounts are amortized using the bonds outstanding method.

Use of Estimates

In preparing the Commission’s financial statements, management is required 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

MWMC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets. MWMC carries commercial insurance for such risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE B – INTERGOVERNMENTAL AGREEMENTS

In accordance with the MWMC service agreement dated July 14, 1983 and updated on July 5, 2005, the City of Eugene is responsible for the operations of the regional sewage facilities. The agreement obligated MWMC for costs incurred by the City of Eugene in operating and maintaining the Regional Sewage Facilities. These costs include employee benefits for City of Eugene employees. The interagency payable at June 30, 2017 for operation and maintenance costs incurred by the City of Eugene is \$1,253,470 (\$1,246,932 for 2016). The total costs charged to MWMC for the year ended June 30, 2017 were \$13,396,494 (\$14,933,988 for 2016).

The City of Springfield, in accordance with the MWMC service agreement dated July 14, 1983 and updated July 5, 2005, provides the technical, financial, and administrative support services to MWMC. Costs charged to MWMC for the years ended June 30, 2017 and 2016 were \$3,385,618 and \$3,630,803 respectively and include employee benefits for City of Springfield employees.

METROPOLITAN WASTEWATER MANAGEMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE B – INTERGOVERNMENTAL AGREEMENTS – Continued

These costs include a pro-rata share of other post-employment benefits, specifically medical, dental and vision coverage for eligible retirees, their spouses, domestic partners, and dependents on a self-pay basis. Due to the effect of age, retiree claim costs are generally higher than claim costs for all members as a whole. The difference between retiree claim costs and the amount of retiree healthcare premiums represents implicit employer contribution. In addition, life insurance benefits are provided to fully disabled employees. The actuarial computed liability for the plan at June 30, 2017 was \$160,024 (\$150,997 for 2016).

MWMC has no employees of their own. All personnel costs reflected are related to the employees of the cities of Eugene and Springfield contracted to do the work of MWMC. In addition to the post-employment benefit liability referenced above, MWMC has recorded an interagency payable to the respective cities for the compensated absences of \$664,367 (\$636,344 for 2016), and the net pension liability of \$7,370,704 (\$6,385,804 for 2016) computed for those employees. The total interagency payable due to the cities of Eugene and Springfield is \$8,195,095 (\$7,173,145 for 2016).

NOTE C – COMMITMENTS AND CONTINGENCIES

At June 30, 2017, MWMC was obligated by contracts for uncompleted construction projects for \$25,987,611. At June 30, 2016, the obligation on contracts for capital improvement projects was \$4,743,883.

NOTE D – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary information

MWMC follows these procedures in establishing the budgetary data reflected in the statements presented in the supplementary information section.

In the spring of each year, the Executive Officer submits a proposed budget to the Metropolitan Wastewater Management Commission. The budget is prepared on the modified accrual basis of accounting. Estimated revenues and expenditures are budgeted for by fund, department, and category. Information on the past year's actual receipts and expenditures and the current-year amended budget are provided in the budget document. MWMC conducts a public hearing for the purpose of obtaining citizen comments on the budget. MWMC then adopts the budget. All three governmental bodies included in the intergovernmental agreement, the City of Springfield, the City of Eugene, and Lane County, ratify the budget as appropriate. MWMC then makes a final approval by resolution.

MWMC may change the budget throughout the year by transferring appropriations between levels of control and by adopting supplemental budgets. Any changes adopted by MWMC in this manner must also be adopted by the City of Springfield, because MWMC's budget is included in the budget of the City of Springfield. Management may transfer budget amounts between individual line items within the control level, but cannot make changes between the legal levels of control. During the fiscal year ended June 30, 2017, MWMC adopted several transfer resolutions and supplemental budgets increasing expenditures by \$989,048. This was funded by reserves and adjustments to beginning cash - carrying forward budget planned, but not spent at the end of FY 2016.

METROPOLITAN WASTEWATER MANAGEMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE E – RESTRICTED CASH AND INVESTMENTS

The Commission maintains cash and investments in several fund accounts in accordance with bond resolutions and Commission authorization. Descriptions of these fund account types are as follows:

Construction Funds – Used to account for legally restricted cash and investments for the purpose of construction of capital projects. Funds include proceeds from the issuance of bonds and notes and interest earned on those proceeds.

System Development Charge Reserves – Used to account for charges assessed and collected in conjunction with installation of new sewer services in the Regional Sewer System and are restricted by State of Oregon Statutes to system enhancements and other related capital expenditures.

Investments for Bond Principal and Interest – Used to account for cash and investments restricted by Bond Indentures of Trust for future payment of principal and interest on debt.

State Revolving Loan Reserves – Deposits held for debt service as required by the State of Oregon Department of Environmental Quality for Clean Water State Revolving Fund Loan Agreements.

Insurance Reserve - Deposits held by direction of the Commission for use towards future insurance claims.

Detailed amounts for restricted cash and investments were as follows:

<u>Current</u>	
Construction funds	\$ 8,248,221
State Revolving Fund loan reserves	641,728
System development charge reserves	4,689,181
Investments for bond principal and interest	2,000,000
Insurance reserve	<u>515,000</u>
Current restricted cash	<u>\$ 16,094,130</u>

METROPOLITAN WASTEWATER MANAGEMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F- CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance restated	Increases	Decreases and Reclassifications	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 7,731,550	\$ -	\$ -	\$ 7,731,550
Construction in progress	4,061,186	2,925,735	-	6,986,921
Total capital assets, not being depreciated	<u>11,792,736</u>	<u>2,925,735</u>	<u>-</u>	<u>14,718,471</u>
Capital assets, being depreciated:				
Buildings	121,706,619	115,915	-	121,822,534
Machinery and equipment	122,594,423	1,076,828	(220,521)	123,450,730
Other	4,627,133	165,318	-	4,792,451
Total capital assets, being depreciated	<u>248,928,175</u>	<u>1,358,061</u>	<u>(220,521)</u>	<u>250,065,715</u>
Less accumulated depreciation for:				
Buildings	(64,302,718)	(4,424,918)	-	(68,727,636)
Machinery and equipment	(71,009,756)	(3,596,838)	218,737	(74,387,857)
Other	(2,434,205)	(242,406)	-	(2,676,611)
Total depreciation	<u>(137,746,679)</u>	<u>(8,264,162)</u>	<u>218,737</u>	<u>(145,792,104)</u>
Total capital assets, being depreciated, net	<u>111,181,496</u>	<u>(6,906,101)</u>	<u>(1,784)</u>	<u>104,273,611</u>
Capital assets, net	<u>\$ 122,974,232</u>	<u>\$ (3,980,366)</u>	<u>\$ (1,784)</u>	<u>\$ 118,992,082</u>

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance restated	Increases	Decreases and Reclassifications	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 7,731,550	\$ -	\$ -	\$ 7,731,550
Construction in progress	6,137,343	3,099,981	(5,176,138)	4,061,186
Total capital assets, not being depreciated	<u>13,868,893</u>	<u>3,099,981</u>	<u>(5,176,138)</u>	<u>11,792,736</u>
Capital assets, being depreciated:				
Buildings	121,283,258	423,361	-	121,706,619
Machinery and equipment	117,084,034	5,952,136	(441,747)	122,594,423
Other	5,241,449	-	(614,316)	4,627,133
Total capital assets, being depreciated	<u>243,608,741</u>	<u>6,375,497</u>	<u>(1,056,063)</u>	<u>248,928,175</u>
Less accumulated depreciation for:				
Buildings	(59,881,487)	(4,421,231)	-	(64,302,718)
Machinery and equipment	(67,794,946)	(3,620,616)	405,806	(71,009,756)
Other	(2,778,701)	(222,457)	566,953	(2,434,205)
Total depreciation	<u>(130,455,134)</u>	<u>(8,264,304)</u>	<u>972,759</u>	<u>(137,746,679)</u>
Total capital assets, being depreciated, net	<u>113,153,607</u>	<u>(1,888,807)</u>	<u>(83,304)</u>	<u>111,181,496</u>
Capital assets, net	<u>\$ 127,022,500</u>	<u>\$ 1,211,174</u>	<u>\$ (5,259,442)</u>	<u>\$ 122,974,232</u>

METROPOLITAN WASTEWATER MANAGEMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G – REBATABLE ARBITRAGE

MWMC issued revenue bonds in the amount of \$47,270,000 on November 14, 2006, and \$50,730,000 on November 20, 2008. As of May 3, 2016 the 2006 and 2008 revenue bonds were refunded and a 2016 Revenue bond in the amount of \$32,725,000 was issued. Interest earnings on unspent bond proceeds may result in an arbitrage rebate due to the federal government. Arbitrage regulations require that the first installment date computation be made at five years from the delivery date. The rebate is required to be made within 60 days of the calculation. MWMC's liability is estimated at zero as of June 30, 2017.

NOTE H – LONG TERM DEBT

Revenue Bonds

On May 3, 2016, the Metropolitan Wastewater Management Commission undertook an advanced refunding of the 2006 and 2008 revenue bonds. Proceeds, including premium, of approximately \$37.4 million plus approximately \$36.6 million of cash for scheduled debt service were sent to escrow to pay the principal and interest on \$69.4 million of existing bonds. As a result, the 2006 and 2008 bonds have been defeased in FY2015-16, and the liability was removed from the statement of net position. This refunding was undertaken to reduce total debt service payments by \$52.1 million over ten years and resulted in an economic gain of \$15.3 million.

MWMC issued \$32,725,000 in new revenue bonds as a result of the refunding. The bond premium of \$5,249,467 is being amortized over the life of the bonds. Additionally, a deferred charge for debt refunding of \$3,639,258 is being amortized over the life of the 2016 bonds with \$3,237,587 unamortized as of June 30, 2017. There are no longer specific reserves required by the bond covenants.

Revenue obligation bonds payable transactions for the year ended June 30, 2017 are as follows:

	Issue Date	Final Maturity Date	Effective Interest Rate	Outstanding July 1, 2016	Issued During Year	Matured During Year	Outstanding June 30, 2017	Due Within One Year
Sewer system revenue bonds serviced by fund revenues:								
Series 2016	5/3/2016	2027	1.461%	\$ 32,725,000	\$ -	\$ 2,625,000	\$ 30,100,000	\$ 2,725,000
						Unamortized premium	4,670,074	
						Due in current year	(2,725,000)	
						Total revenue bonds payable	<u>\$ 32,045,074</u>	

Revenue obligation bonds payable transactions for the year ended June 30, 2016 are as follows:

	Issue Date	Final Maturity Date	Effective Interest Rate	Outstanding July 1, 2015	Issued During Year	Defeased During Year	Outstanding June 30, 2016	Due Within One Year
Sewer system revenue bonds serviced by fund revenues:								
Series 2006	11/15/2006	2025	3.966%	\$ 33,470,000	\$ -	\$ 33,470,000	\$ -	\$ -
Series 2008	11/20/2008	2028	4.910%	40,020,000	-	40,020,000	-	-
Series 2016	5/3/2016	2027	1.461%	-	32,725,000	-	32,725,000	2,625,000
						Unamortized premium	5,170,023	
						Due in current year	(2,625,000)	
						Total revenue bonds payable	<u>\$ 35,270,023</u>	

METROPOLITAN WASTEWATER MANAGEMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE H – LONG TERM DEBT - Continued

Maturities of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 2,725,000	\$ 1,282,850
2019	2,835,000	1,171,650
2020	2,955,000	1,055,850
2021	3,090,000	919,500
2022	3,245,000	761,125
2023-2027	<u>15,250,000</u>	<u>1,383,500</u>
Total	<u>\$ 30,100,000</u>	<u>\$ 6,574,475</u>

Notes Payable

At June 30, 2017, notes payable are as follows:

Oregon Department of Environmental Quality (DEQ) State Revolving Fund loan, payable in semiannual installments, including interest at 2.77%, due 2030.	\$ 2,349,050
Oregon Department of Environmental Quality (DEQ) State Revolving Fund loan, payable in semiannual installments, zero interest, due 2030.	1,300,000
Oregon Department of Environmental Quality (DEQ) State Revolving Fund loan, payable in semiannual installments, including interest at 2.44%, due 2030.	6,058,033
Oregon Department of Environmental Quality (DEQ) State Revolving Fund loan, payable in semiannual installments, including interest at 2.65%, due 2032.	3,338,011
Oregon Department of Environmental Quality (DEQ) State Revolving Fund loan, payable in semiannual installments, including interest at 1.25%, due 2030.	<u>1,001,491</u>
Total	<u>\$ 14,046,585</u>

METROPOLITAN WASTEWATER MANAGEMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE H – LONG TERM DEBT - Continued

Long-term liability activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	<u>\$ 15,095,204</u>	<u>\$ -</u>	<u>\$ (1,048,619)</u>	<u>\$ 14,046,585</u>	<u>\$ 1,077,926</u>

Long-term liability activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	<u>\$ 15,779,970</u>	<u>\$ 69,510</u>	<u>\$ (754,276)</u>	<u>\$ 15,095,204</u>	<u>\$ 1,048,619</u>

Principal and interest amounts due on these notes payable in each of the next five years, and in the aggregate thereafter, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,077,926	\$ 372,231
2019	1,099,435	346,707
2020	1,121,455	320,582
2021	997,327	293,845
2022	870,979	269,230
2023-27	4,664,106	969,017
2028-32	4,085,090	295,694
2033	<u>130,267</u>	<u>2,377</u>
Total	<u>\$ 14,046,585</u>	<u>\$ 2,869,683</u>

MWMC maintained a loan reserve of \$641,728 as of June 30, 2017 in accordance with the loan agreements with the Oregon Department of Environmental Quality.

NOTE I – PRIOR PERIOD ADJUSTMENT

A prior period adjustment in the amount of \$2,174,364 was recorded in fiscal year 2016 that increased the beginning net position. MWMC replaced the accounting tool used for tracking capital assets and calculating depreciation. As a result of this transition, it was discovered that some assets were over-depreciated in earlier years resulting in higher depreciation expense and lower net asset value. This adjustment corrected the 2016 beginning net position and capital asset and accumulated depreciation amounts. No further adjustments were made in fiscal year 2017.

Metropolitan Wastewater Management Commission



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Supplementary Information

Metropolitan Wastewater Management Commission



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Metropolitan Wastewater Management Commission
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

Year Ended June 30, 2017

	Regional Wastewater Fund	Regional Wastewater Capital Fund	Regional Wastewater Bond Capital Fund	Eliminations	Total
Revenues:					
Charges for services	\$ 32,417,615	\$ 1,971,601	\$ -	\$ (352,391)	\$ 34,036,825
Investment earnings	118,566	568,645	171,189	-	858,400
Intergovernmental revenue	39,162	217	-	-	39,379
Licenses and permits	12,057	-	-	-	12,057
Fines and forfeitures	2,300	-	-	-	2,300
Miscellaneous receipts	28,239	9,042	715	-	37,996
Total revenues	32,617,939	2,549,505	171,904	(352,391)	34,986,957
Expenses:					
Current operating:					
Finance	122,467	-	-	-	122,467
Development and public works	17,011,429	607	-	(352,391)	16,659,645
Debt service:					
Interest and premium amortization	1,764,628	-	(153,353)	-	1,611,275
Depreciation	8,264,162	-	-	-	8,264,162
Total expenses	27,162,686	607	(153,353)	(352,391)	26,657,549
Excess of revenues over (under) expenses	5,455,253	2,548,898	325,257	-	8,329,408
Other financing sources (uses):					
Transfers in	6,475,855	12,598,619	2,625,000	(21,699,474)	-
Transfers out	(15,223,619)	(3,876,966)	(2,598,889)	21,699,474	-
Loss on disposal of assets	36,632	-	-	-	36,632
Total other financing sources (uses)	(8,711,132)	8,721,653	26,111	-	36,632
Change in net position	(3,255,879)	11,270,551	351,368	-	8,366,040
Net position, beginning of year, as restated	128,724,261	42,307,430	(23,611,789)	-	147,419,902
Net position, end of year	\$ 125,468,382	\$ 53,577,981	\$ (23,260,421)	\$ -	\$ 155,785,942

Metropolitan Wastewater Management Commission
REGIONAL WASTEWATER FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
(NON-GAAP BUDGETARY BASIS) - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Original Budget	Revised Budget	Budget Basis Actual	Variance	Adjustments to Budget Basis Actual	GAAP Basis Actual
Revenues:						
Charges for services	\$ 31,676,000	\$ 31,676,000	\$ 32,769,155	\$ 1,093,155	\$ (351,540)	\$ 32,417,615
Investment earnings	85,000	85,000	102,318	17,318	16,248	118,566
Intergovernmental revenue	-	-	39,162	39,162	-	39,162
Licenses and permits	9,510	9,510	12,113	2,603	(56)	12,057
Fines and forfeitures	600	600	2,300	1,700	-	2,300
Miscellaneous revenue	700,000	700,000	98,299	(601,701)	(70,060)	28,239
Total revenues	32,471,110	32,471,110	33,023,347	552,237	(405,408)	32,617,939
Expenses:						
Current operating:						
Finance	135,880	135,880	122,467	13,413	-	122,467
Development and public works	17,560,750	17,690,150	15,786,254	1,903,896	1,225,175	17,011,429
Debt service:						
Principal	3,454,633	3,679,633	3,673,619	6,014	(3,673,619)	-
Interest	2,049,829	1,824,829	1,787,300	37,529	(22,672)	1,764,628
Depreciation	-	-	-	-	8,264,162	8,264,162
Total expenses	23,201,092	23,330,492	21,369,640	1,960,852	5,793,046	27,162,686
Excess of revenues over (under) expenses	9,270,018	9,140,618	11,653,707	2,513,089	(6,198,454)	5,455,253
Other financing sources (uses):						
Transfers in	2,020,191	2,020,191	2,020,191	-	4,455,664	6,475,855
Transfers out	(11,550,000)	(11,550,000)	(11,550,000)	-	(3,673,619)	(15,223,619)
Gain (loss) on disposal of assets	-	-	-	-	36,632	36,632
Total other financing sources (uses)	(9,529,809)	(9,529,809)	(9,529,809)	-	818,677	(8,711,132)
Change in net position	(259,791)	(389,191)	2,123,898	2,513,089	(5,379,777)	(3,255,879)
Net position, beginning of year	10,684,205	11,988,887	11,988,888	-	116,735,373	128,724,261
Net position, end of year	\$ 10,424,414	\$ 11,599,696	\$ 14,112,786	\$ 2,513,089	\$ 111,355,596	\$ 125,468,382

Metropolitan Wastewater Management Commission
REGIONAL WASTEWATER CAPITAL FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
(NON-GAAP BUDGETARY BASIS) - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Original Budget	Revised Budget	Budget Basis Actual	Variance	Adjustments to Budget Basis Actual	GAAP Basis Actual
Revenues:						
Charges for services	\$ 1,200,000	\$ 1,200,000	\$ 1,976,352	\$ 776,352	\$ (4,751)	\$ 1,971,601
Investment earnings	108,200	108,200	571,970	463,770	(3,325)	568,645
Intergovernmental revenue	-	-	217	217	-	217
Miscellaneous receipts	2,500	2,500	9,069	6,569	(27)	9,042
Total revenues	<u>1,310,700</u>	<u>1,310,700</u>	<u>2,557,608</u>	<u>1,246,908</u>	<u>(8,103)</u>	<u>2,549,505</u>
Expenses:						
Current operating:						
Development and public works	6,589,000	3,379,119	1,659,444	1,719,675	(1,658,837)	607
Capital projects	19,780,206	23,819,445	237,897	23,581,548	(237,897)	-
Total expenses	<u>26,369,206</u>	<u>27,198,564</u>	<u>1,897,341</u>	<u>25,301,223</u>	<u>(1,896,734)</u>	<u>607</u>
Excess of revenues over (under) expenses	<u>(25,058,506)</u>	<u>(25,887,864)</u>	<u>660,267</u>	<u>26,548,131</u>	<u>1,888,631</u>	<u>2,548,898</u>
Other financing sources (uses):						
Transfers in	11,550,000	11,550,000	11,550,000	-	1,048,619	12,598,619
Transfers out	(2,020,191)	(2,020,191)	(2,020,191)	-	(1,856,775)	(3,876,966)
Total other financing sources (uses)	<u>9,529,809</u>	<u>9,529,809</u>	<u>9,529,809</u>	<u>-</u>	<u>(808,156)</u>	<u>8,721,653</u>
Change in net position	(15,528,697)	(16,358,055)	10,190,076	26,548,131	1,080,475	11,270,551
Net position, beginning of year	<u>51,787,247</u>	<u>57,382,122</u>	<u>57,382,122</u>	<u>-</u>	<u>(15,074,692)</u>	<u>42,307,430</u>
Net position, end of year	<u>\$ 36,258,550</u>	<u>\$ 41,024,067</u>	<u>\$ 67,572,198</u>	<u>\$ 26,548,131</u>	<u>\$ (13,994,217)</u>	<u>\$ 53,577,981</u>

Metropolitan Wastewater Management Commission
REGIONAL WASTEWATER BOND CAPITAL FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
(NON-GAAP BUDGETARY BASIS) - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Original Budget	Revised Budget	Budget Basis Actual	Variance	Adjustments to Budget Basis Actual	GAAP Basis Actual
Revenues:						
Investment earnings	\$ 210,000	\$ 210,000	\$ 235,592	\$ 25,592	\$ (64,403)	\$ 171,189
Miscellaneous revenue	-	-	715	715	-	715
Total revenues	<u>210,000</u>	<u>210,000</u>	<u>236,307</u>	<u>26,307</u>	<u>(64,403)</u>	<u>171,904</u>
Expenses:						
Capital projects	10,576,394	10,606,684	2,598,889	8,007,795	(2,598,889)	-
Debt service:						
Interest	-	-	-	-	(153,353)	(153,353)
Principal	-	-	-	-	-	-
Total expenses	<u>10,576,394</u>	<u>10,606,684</u>	<u>2,598,889</u>	<u>8,007,795</u>	<u>(2,752,242)</u>	<u>(153,353)</u>
Excess of revenues over (under) expenses	<u>(10,366,394)</u>	<u>(10,396,684)</u>	<u>(2,362,582)</u>	<u>8,034,102</u>	<u>2,687,839</u>	<u>325,257</u>
Other financing sources (uses):						
Transfers in	-	-	-	-	2,625,000	2,625,000
Transfers out	-	-	-	-	(2,598,889)	(2,598,889)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,111</u>	<u>26,111</u>
Change in net position	<u>(10,366,394)</u>	<u>(10,396,684)</u>	<u>(2,362,582)</u>	<u>8,034,102</u>	<u>2,713,950</u>	<u>351,368</u>
Net position, beginning of year	<u>10,366,394</u>	<u>10,610,803</u>	<u>10,610,803</u>	<u>-</u>	<u>(34,222,592)</u>	<u>(23,611,789)</u>
Net position, end of year	<u>\$ -</u>	<u>\$ 214,119</u>	<u>\$ 8,248,221</u>	<u>\$ 8,034,102</u>	<u>\$ (31,508,642)</u>	<u>\$ (23,260,421)</u>

Compliance Section

Metropolitan Wastewater Management Commission



partners in wastewater management



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
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INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Governing Board
Metropolitan Wastewater Management Commission
225 5th Street
Springfield, Oregon 97477

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of Metropolitan Wastewater Management Commission (MWMC) as of and for the years ended June 30, 2017 and 2016, and have issued our report thereon dated December 22, 2017.

Compliance and Order Matters

As part of obtaining reasonable assurance about whether MWMC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

In connection with our testing nothing came to our attention that caused us to believe MWMC was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.


Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MWMC's internal control over financial reporting to determine the 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 MWMC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MWMC's internal control.

Restriction on Use

This report is intended solely for the information and use of the governing board and management of MWMC and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 

Ryan T. Pasquarella, A Shareholder
December 22, 2017



GROVE, MUELLER & SWANK, P.C.

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

Governing Board
Metropolitan Wastewater Management Commission
225 5th Street
Springfield, Oregon 97477

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 the Metropolitan Wastewater Management Commission (MWMC), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise MWMC's basic financial statements, and have issued our report thereon dated December 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MWMC's internal control over financial reporting (internal control) to determine the 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 MWMC's internal control. Accordingly, we do not express an opinion on the effectiveness of MWMC's 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 MWMC'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MWMC's 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 MWMC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MWMC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS

December 22, 2017