

**ROGUE VALLEY SEWER SERVICES
JACKSON COUNTY, OREGON**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEARS ENDED JUNE 30, 2017 AND 2016
WITH
INDEPENDENT AUDITOR'S REPORT**



Certified Public Accountants, LLP

audit | tax | advisory | wealth management | cfo



ROGUE VALLEY SEWER SERVICES
Jackson County, Oregon

Years Ended June 30, 2017 and 2016

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ROGUE VALLEY SEWER SERVICES

Jackson County, Oregon

INTRODUCTORY SECTION





ROGUE VALLEY SEWER SERVICES

Location: 138 West Vilas Road, Central Point, OR - Mailing Address: P.O. Box 3130, Central Point, OR 7502-0005
Tel. (541) 664-6300, Fax (541) 664-7171 www.RVSS.us

November 30, 2017

To the Honorable Chairman and Board of Directors,

The Comprehensive Annual Financial Report of Rogue Valley Sewer Services (RVS) for fiscal year ended June 30, 2017, is hereby submitted.

This report was prepared in accordance with the provisions of Oregon Revised Statutes Sections 297.405 through 297.555. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentations, including all disclosures, rests with the District. We believe the data is accurate and complete in all material respects; that it is presented in a manner designed to present fairly the financial position, results of operations, and changes in cash flows of the District at June 30, 2017, and for the year then ended.

Profile of RVS

The Rogue Valley Sewer Services is a sanitary District that provides sewer service for rural and urban portions of Jackson County, Oregon, the cities of Talent, Central Point, Jacksonville, Phoenix and Eagle Point, Oregon, and portions of the city of Medford, Oregon. Voters approved formation of the District at a special election dated August 30, 1966. The District was declared established on September 21, 1966. The District's primary purpose is to provide sanitary sewer service to those within its boundaries who may connect to our system as well as to construct and maintain sewers where health hazards exist in rural areas of Jackson County, Oregon.

The District operates the regional interceptor sewer system, which transports flows from the other regional member – the city of Medford. The cities of Central Point, Jacksonville and Phoenix have been annexed into the District in 2000, 2005 and 2006 respectively. The interceptor system consists of the Upper Bear Creek Interceptor, the Lower Bear Creek Interceptor, the North Medford Trunk, the Dunn Pump Station and Pressure Main. The District also operates a sanitary sewer collection system within the service area. Total interceptor and trunk system is approximately 395 miles in length, within a District boundary of about 190 square miles.

The District manages a storm water quality program for the cities of Talent, Phoenix, Central Point, and Jackson County through Intergovernmental agreements with the cities.

The District also operates the sanitary sewer collection system and treatment plant for the City of Shady Cove through an intergovernmental agreement.

The Board of Directors of the District consists of five elected members. The District is separately governed and was established under Oregon Revised Statutes Chapter 450.705 through .990.

Factors Affecting Financial Condition

As the region continues to recover from the most recent recession, Rogue Valley Sewer Services has seen an increase in new construction which results in increases in development fees and services charges.

Internal Control

Management is responsible for establishing and maintaining an internal control structure designed to ensure that assets of the District are protected from loss, theft or misuse in a cost effective manner. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes two facts. First, the cost of a control should not exceed the benefit likely to be derived. Second, the evaluation of costs and benefits requires estimates and judgments by management. The internal control structure is subject to periodic evaluation by management and by independent accountants.

All internal control evaluations occur within this framework. We believe the District's systems of internal control adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Accounting System and Budgeting Controls.

For financial reporting and operating purposes, management considers the District's activities as those of a unitary enterprise operation and, as such, are reported in a single fund in the basic financial statements. However, for budgetary and legal purposes, these activities are accounted for in the funds described below on the modified accrual basis of accounting.

General Fund. The General Fund accounts for the District's normal recurring sewer operations. The primary source of revenue is sewer service fees, maintenance contracts, and service payments. The General Fund also accounts for the construction of new sewer projects and the rehabilitation of existing systems. Assessments levied to finance new projects are accounted for by this fund prior to the sale of bonds. New construction has been primarily financed internally. Major rehabilitation projects have been financed with state revolving loan funds

Bear Creek Interceptor (BCI) Operations and Maintenance Fund. The BCI Operations and Maintenance Fund accounts for the maintenance cost of the Bear Creek Interceptor that is shared by the District and the cities of Medford, Jacksonville, and Phoenix. The actual maintenance is the responsibility of the District, and each entity is billed monthly for their share of the cost.

Dunn Pump Station (DPS) Operations and Maintenance Fund. The DPS Operations and Maintenance Fund accounts for the maintenance cost of the Dunn Pump Station that is shared by the District and the cities of Medford and Jacksonville. The actual maintenance is the responsibility of the District, and each entity is billed monthly for their share of the cost. In 2004 the Region agreed to one flat rate for both BCI and DPS.

Interceptor Capital Expansion Fund. The Interceptor Capital Expansion Fund accounts for the capital costs of the Bear Creek Interceptor and Dunn Pump Station that are shared by the District and the City of Medford. The actual capital expansion projects are the responsibility of the District, and each entity is billed monthly for their share of the cost.

White City Storm Drain Fund. The White City Storm Drain Fund was established to upgrade and maintain certain portions of the industrial side of White City storm drain area not maintained by the County.

Storm Water Quality Fund. In order to protect and improve the quality of water in wells, creeks and rivers, the federal government has established a more stringent storm water program. This fund was created to account for the receipt of a new monthly fee and the expenditures regarding storm water quality.

Shady Cove O & M. The Shady Cove O & M Fund is a dedicated fund established in 2011 to operate and maintain the sanitary sewers in Shady Cove for 5 years.. In FY 2017, this agreement was renewed for an additional 10 years.

Shady Cove Capital. The Shady Cove Capital Fund is a dedicated fund established in 2011 to pay for capital improvements within the Shady Cove collection system and treatment plant for 5 years. Under this agreement, RVSS is charged with the planning and implementation of a capital improvement plan designed to ensure adequate system capacity and regulatory compliance. In FY 2017, this agreement was renewed for an additional 10 years.

The District annually prepares a budget, by fund, to control its fiscal operations. A proposed detailed budget is prepared by District management and is submitted to the Budget Committee. The Budget Committee consists of the Board of Directors and five appointed members. The Committee may revise or approve the proposed budget. After the Budget Committee approves the proposed budget, it is submitted to the Board of Directors, and a public hearing is held. The Board adopts the budget and makes appropriations by major functional classifications for all funds, allowing the District to expend funds for the year. Appropriations adopted by the Board lapse at the end of the fiscal year.

The District may adopt supplemental budgets as a result of unexpected additional resources. Adoption of supplemental budget requires hearings before the public, publication in newspapers, approval by the Board of Directors, and adoption of appropriations. Original and supplemental budgets may be modified by the Board of Directors through the use of appropriation transfers. While the General Fund is organized by departments, the budget for this and all funds are appropriated by categories of personal services, materials and supplies, capital outlay, debt and transfers to other funds. These amounts can be seen in the supplementary schedules of expenditures – original and final budget compared to actual.

Independent Audit

The provisions of Oregon Revised Statutes Section 297.405 through 297.555, known as "Municipal Audit Law", require that an independent audit of the District's records be made within six months following the close of the fiscal year. The auditors, KDP, Certified Public Accountants, LLP have completed their audit and have included their opinion in the financial section of this report.

Fiduciary Operations

Both a pension plan and a deferred compensation program are provided to all District employees. In FY 2017 the District contributed 8.6% of the base salary of eligible employees to the International City Manager's Association (ICMA) retirement system. This plan is a defined contribution plan in which the participating employees are required to contribute 6% of their base salary. Employees are vested immediately.

The deferred compensation program falls within the guidelines of the Internal Revenue Code section 457. The plan permits the employees to defer a portion of their salary until future years as a retirement program and are taxed only upon receipt. The total amount of deferred compensation and earnings thereon at June 30, 2017 is \$1,147,327.

The District also has a Retirement Health Savings plan with ICMA. The District contributes 3% of eligible salary for management employees and allows contributions from both management and union employees.

Long Term Financial Planning

Rogue Valley Sewer Services is focused on ways to conserve the existing assets while reducing operating expenses. Efforts to preserve the existing assets include a tight maintenance program. The O&M department cleans 1/3 of our service lines annually and 1/5, or 75 miles, of those lines are tv'd to identify any faulty lines to avoid increased costs resulting from deferred maintenance or major repairs.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive Annual Financial Reports for the fiscal years ended June 30, 1990 through 2016. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized comprehensive annual financial report. The reports satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual 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.

We wish to express our appreciation to the staff of our Administrative/Finance Department for their efforts and contributions in the preparation of the comprehensive annual report. We also thank and extend our appreciation to the members of our Board of Directors for their support and dedication to the financial operation of the District.

Please see the Management Discussion and Analysis on pages B1 – B5, for a further analysis of the District's operations.

Respectfully submitted,



Carl Tappert, Manager



Brenda Baldovino, Finance Director



Government Finance Officers Association

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

Presented to

**Rogue Valley Sewer Services
Oregon**

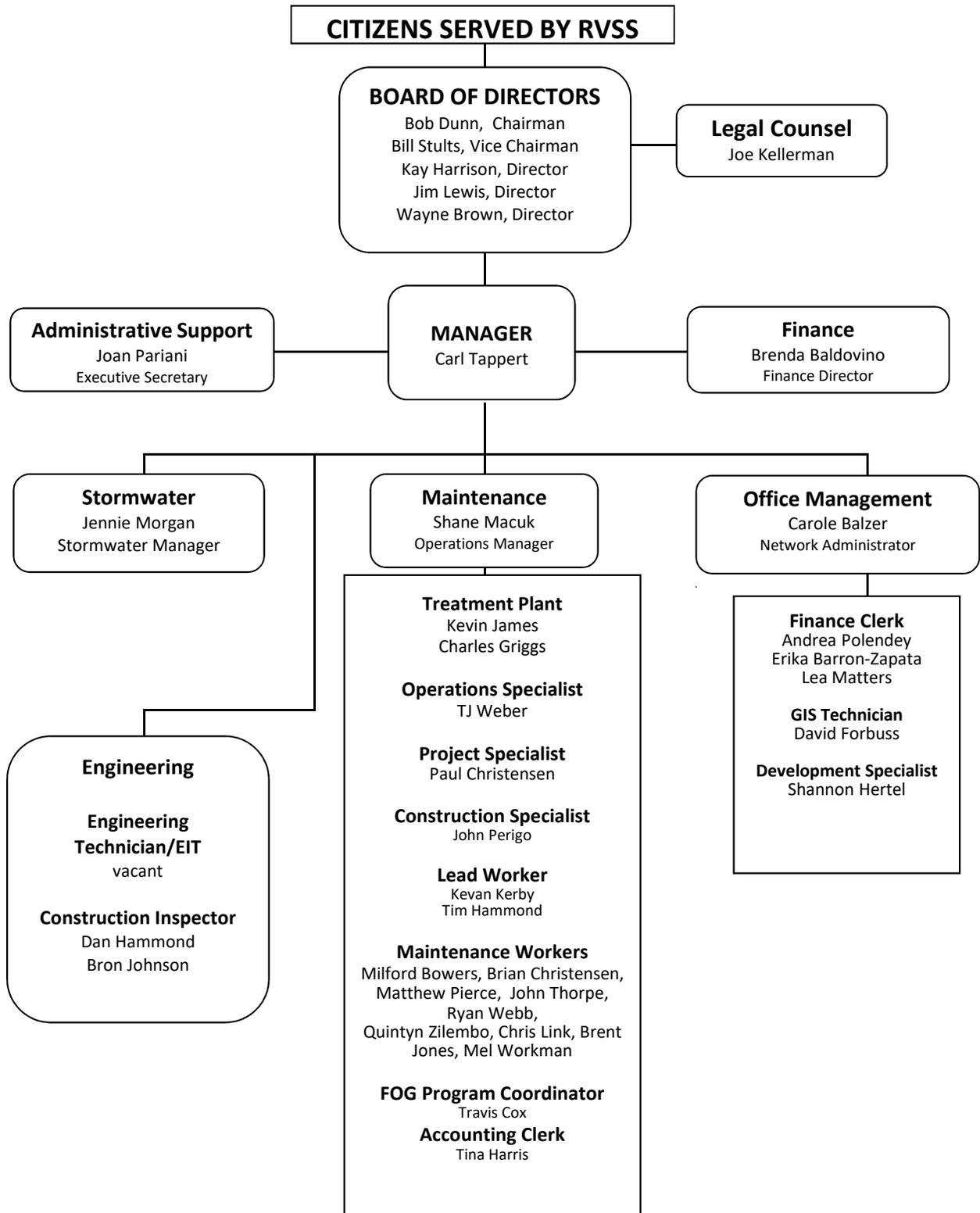
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Christopher P. Morill

Executive Director/CEO

ROGUE VALLEY SEWER SERVICES
Departmental Organization
FISCAL YEAR 2017



**ROGUE VALLEY SEWER SERVICES
Jackson County, Oregon
June 30, 2017**

**Administrative Office:
138 West Vilas Road
P.O. Box 3130
Central Point, OR 97502
(541) 664-6300
Fax (541) 664-7171**

LIST OF PRINCIPAL OFFICIALS AS OF JUNE 30, 2017

BOARD OF DIRECTORS

TERM EXPIRES

Robert Dunn, Chairman 138 West Vilas Road, Central Point, OR 97502	June 2018
Bill Stults, Vice Chairman 138 West Vilas Road, Central Point, OR 97502	June 2018
Wayne Brown, Director 138 West Vilas Road, Central Point, OR 97502	June 2017
Kay Harrison, Director 138 West Vilas Road, Central Point, OR 97502	June 2018
Jim Lewis, Director 138 West Vilas Road, Central Point, OR 97502	June 2017

ADMINISTRATIVE STAFF

Carl Tappert, Manager and Registered Agent

LEGAL COUNSEL

Hornecker, Cowling, Hassen & Haysell, LLP



ROGUE VALLEY SEWER SERVICES

Jackson County, Oregon

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rogue Valley Sewer Services
Central Point, Oregon

We have audited the accompanying financial statements of the business-type activities of Rogue Valley Sewer Services, Jackson County, Oregon (the District), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District'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. 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 the entity'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 the entity'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.

The Board of Directors
Rogue Valley Sewer Services
Central Point, Oregon

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, 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

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, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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 management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The introductory section, statistical section, budget to actuals, and reconciliation of revenues and expenditures to changes in net position are presented for purposes of additional analysis and are not required as part of the basic financial statements.

The budget to actual schedules and reconciliation of revenues and expenditures to changes in net position as listed in the table of contents are the responsibility of management and were derived from and relate 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 budget to actual schedules and reconciliation of revenues and expenditures to changes in net position are fairly stated, in all material respects, in relation to the basic financial statement as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

The Board of Directors
Rogue Valley Sewer Services
Central Point, Oregon

Other Reporting Required by Oregon State Regulations

In accordance with Oregon State Regulation, we have also issued our report dated November 30, 2017, on our consideration of the District's compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations. The purpose of that report is to describe the scope of our testing necessary to address the required provisions of ORS, and not to provide an opinion on compliance with such provisions.



Mark E. Damon, CPA, Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
November 30, 2017



ROGUE VALLEY SEWER SERVICES Management's Discussion and Analysis

As management of the Rogue Valley Sewer Services (RVS), we offer readers of the RVS' financial statements this narrative overview and analysis of the financial activities of RVS for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i to iv of this report.

Financial Highlights

- At June 30, 2017, District assets exceeded its liabilities by \$89,148,396.
- The District has \$80,122,932 net investment in capital assets. That is an increase of \$1,064,780.
- Increase in net position for the year was \$2,941,451.

Overview of the Financial Statements

The District is a self-supporting entity and follows enterprise fund reporting, accordingly the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The District's annual report consists of the Statement of Net Position, the Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash Flows. The Statement of Net Position presents the current and long-term portions of assets and liabilities separately and may provide a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's assets changed as a result of current years' operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that do not affect cash until future fiscal periods. The Statement of Cash Flows presents information showing how the District's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income to net cash provided by operating activities (indirect method) as required by GASB 34. Budgetary schedules are included later in the financial report.

The notes to the financial statements provide additional information that are essential to a complete understanding of the data provided in the financial statements.

Financial Summary

The following schedule presents a summary of revenues, expenses and increase (decrease) in net position for the District for the fiscal year ended June 30, 2017 and the amount and percentage change from the prior year:

Changes in Net Position

<u>Operating Revenues</u>	2017 Amount	2016 Amount	Change 2016 - 2017	%
Sewer service fees	\$ 8,767,177	\$ 8,041,172	\$ 726,005	9.0%
System development charges	639,308	606,851	32,457	5.3%
Interceptor maintenance fees	181,903	153,084	28,819	18.8%
Contract services revenue	405,000	303,887	101,113	33.2%
Special assessments	26,735	27,599	(864)	0%
Other	1,149,482	971,740	177,742	18.3%
	<u>11,169,605</u>	<u>10,104,333</u>	<u>1,065,272</u>	<u>10.5%</u>
<u>Non-Operating Revenues:</u>				
Interest income	90,764	38,101	52,663	138.2%
Gain (Loss) on sale of assets	(14,664)	46,611	(61,275)	(131.5%)
	<u>76,100</u>	<u>84,712</u>	<u>(8,612)</u>	<u>(10.2%)</u>
Total Revenues	<u>11,245,705</u>	<u>10,189,045</u>	<u>1,056,660</u>	<u>10.5%</u>
<u>Operating Expenses</u>				
Labor and fringe benefits	2,905,850	2,728,191	177,659	6.5%
Utilities	169,516	160,148	9,368	5.8%
Maintenance materials and services	405,832	319,381	86,451	27.1%
Administrative	728,038	703,627	24,411	3.5%
Treatment charges	3,001,448	2,748,900	252,548	9.2%
Depreciation	1,829,777	1,862,091	(32,314)	(1.7%)
Contract services expenses	97,339	15,908	81,431	511%
	<u>9,137,800</u>	<u>8,538,246</u>	<u>599,554</u>	<u>7%</u>
<u>Non-operating Expenses</u>				
Interest expense	82,003	95,754	(13,751)	(14.4%)
Total expenses	<u>9,219,803</u>	<u>8,634,000</u>	<u>585,803</u>	<u>6.8%</u>
Increase(decrease) in net position before contributions	<u>2,025,902</u>	<u>1,555,045</u>	<u>470,857</u>	<u>30.3%</u>
Capital contributions of plant	<u>915,549</u>	<u>649,186</u>	<u>266,363</u>	<u>41%</u>
Change in net position	<u>\$ 2,941,451</u>	<u>\$ 2,204,231</u>	<u>\$ 737,220</u>	<u>33.4%</u>
Net position-Beginning	\$ 86,206,945	\$ 84,002,714		
Net position-Ending	\$ 89,148,396	\$ 86,206,945		

Total assets, liabilities and net position were as follows:

Net Position	2017	2016	Change	
	<u>Amount</u>	<u>Amount</u>	<u>2016- 2017</u>	<u>%</u>
Current and other assets	\$10,216,847	\$7,986,269	\$2,230,578	27.93%
Capital Assets	<u>83,610,896</u>	<u>82,969,489</u>	<u>641,407</u>	<u>0.77%</u>
Total assets	<u><u>93,827,743</u></u>	<u><u>90,955,758</u></u>	<u><u>2,871,985</u></u>	<u><u>3.16%</u></u>
Debt outstanding	3,487,964	3,911,337	(423,373)	(10.82%)
Other liabilities	<u>1,191,383</u>	<u>837,476</u>	<u>353,907</u>	<u>42.26%</u>
Total liabilities	<u><u>4,679,347</u></u>	<u><u>4,748,813</u></u>	<u><u>-69,466</u></u>	<u><u>(1.46%)</u></u>
Net position				
Net investment in capital assets	80,122,932	79,058,152	1,064,780	1.35%
Restricted	1,509,961	1,439,263	70,698	4.91%
Unrestricted	<u>7,515,503</u>	<u>5,709,530</u>	<u>1,805,973</u>	<u>31.63%</u>
Total net position	<u><u>\$89,148,396</u></u>	<u><u>\$86,206,945</u></u>	<u><u>2,941,451</u></u>	<u><u>3.41%</u></u>

As noted previously, net position may serve over time as a useful indicator of the District's financial position. As shown in the table above, net assets at June 30, 2017 are \$89,148,396 an increase of \$2,941,451 from FY16.

By far, the largest portion of the District's net position (89%) reflects an investment in land, buildings, equipment, and pipelines, less related outstanding debt used to acquire those assets. The District uses these capital assets to provide sewer services to customers; consequently, these assets are not available for future spending. Although the District's investment is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from services to customers or other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Budgetary Highlights for FY 2018

- Debt Service – Our total debt service is approximately \$440,000, which is 4.5% of our general fund revenue (assuming the proposed rate increase). We do not believe that this level of debt will cause distress. We are not planning on incurring any additional debt in the coming year.
- Franchise Fee – RVSS currently pays a franchise fee to the cities of Phoenix, Central Point, and Eagle Point. This fee is added to bills within the respective cities and does not impact our budget.
- Shady Cove – We have entered into a 10 year agreement with Shady Cove which runs through the end of FY2026. This agreement calls for an annexation vote after the initial five years. The operations in Shady Cove have stabilized and we are no longer operating at a deficit.
- Gold Hill – We are in the process of negotiating a management agreement with the City of Gold Hill. The overall structure is similar to that of Shady Cove with one key difference. Gold Hill is in the midst of developing a facilities plan. Any consideration for annexation will not occur until improvements required by the facilities plan have been completed.
- Stormwater Program – Last year’s expansion of the area covered under the MS4 Stormwater Permit significantly increased both revenues and work load. We are proposing an additional position for a stormwater quality technician to help with the additional work.
- Staffing – Our budget proposal includes the addition of four positions: a stormwater quality technician, an engineering in training, a treatment plant operator and a new maintenance worker.
- Major Equipment – We are proposing to add a third flusher truck. With this addition the older 2005 truck will be put in reserve and used primarily to assist the construction crew and to work on storm drains.
- White City Lagoons – Much of the success at Shady Cove is a result of our acceptance of septic tank waste which has generated significant revenue. The only other facility in southwestern Oregon that accepts this waste recently closed for a period of at least three months. In response to this DEQ asked us to open our lagoons to receive this waste, which we have done. This has generated significant revenues. We expect some of this income to continue, even after the other facility re-opens.
- Labor Issues – The union decertified and we no longer have access to Teamsters health insurance. Comparable insurance plans come with a significantly higher price tag. We have included sufficient funds within the budget to maintain the same level of benefit our employees currently enjoy.

Requests for Information

This financial report is designed to provide a general overview of Rogue Valley Sewer Services’ finances for all those with an interest in the District’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 138 W. Vilas Road (PO Box 3130), Central Point, Oregon, 97502.



ROGUE VALLEY SEWER SERVICES

Jackson County, Oregon

BASIC FINANCIAL STATEMENT



**ROGUE VALLEY SEWER SERVICES
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016**

ASSETS:	2017	2016
Current assets:		
Cash and cash equivalents	\$ 8,047,270	\$ 5,860,460
Accounts receivable	119,457	98,733
Service charges receivable	1,023,664	967,829
Current portion of assessments receivable	79,802	83,159
Current portion of note and reserve receivable	512,806	151,086
Materials and supplies inventory	87,035	96,921
Prepaid expenses	35,230	35,927
Total current assets	9,905,264	7,294,115
Noncurrent assets:		
Assessments receivable	311,583	312,218
Note and reserve receivable	-	379,936
Capital assets, net	83,610,896	82,969,489
Total noncurrent assets	83,922,479	83,661,643
TOTAL ASSETS	\$ 93,827,743	\$ 90,955,758
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 748,628	\$ 406,634
Accrued payroll and related liabilities	234,639	230,708
Unearned revenue	179,701	166,526
Current portion of long term debt	332,182	423,372
Accrued interest payable	28,415	33,608
Total current liabilities	1,523,565	1,260,848
Noncurrent liabilities:		
Long term debt, net	3,155,782	3,487,965
TOTAL LIABILITIES	4,679,347	4,748,813
NET POSITION:		
Net investment in capital assets	80,122,932	79,058,152
Restricted:		
Debt service	-	132,038
System development	1,509,961	1,307,225
Unrestricted	7,515,503	5,709,530
TOTAL NET POSITION	89,148,396	86,206,945
TOTAL LIABILITIES AND NET POSITION	\$ 93,827,743	\$ 90,955,758

See notes to basic financial statements

**ROGUE VALLEY SEWER SERVICES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Sewer service charges, including delinquent charges	\$ 8,767,177	\$ 8,041,172
System development charges	639,308	606,851
Interceptor maintenance and other fees	181,903	153,084
Reimbursements and miscellaneous	1,149,482	971,740
Special assessments	26,735	27,599
Contract services revenue	<u>405,000</u>	<u>303,887</u>
TOTAL REVENUES	<u>11,169,605</u>	<u>10,104,333</u>
OPERATING EXPENSES:		
Labor and fringe benefits	2,905,850	2,728,191
Utilities	169,516	160,148
Maintenance, materials and services	405,832	319,381
Administrative	728,038	703,627
Treatment charges	3,001,448	2,748,900
Depreciation and amortization	1,829,777	1,862,091
Contract services expenses	<u>97,339</u>	<u>15,908</u>
TOTAL EXPENSES	<u>9,137,800</u>	<u>8,538,246</u>
OPERATING INCOME	<u>2,031,805</u>	<u>1,566,087</u>
NONOPERATING REVENUES (EXPENSES):		
Gain (loss) on disposition of asset	(14,664)	46,611
Interest income - assessments	19,592	9,595
Interest income - investments	71,172	28,506
Interest expense	<u>(82,003)</u>	<u>(95,754)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(5,903)</u>	<u>(11,042)</u>
CAPITAL CONTRIBUTIONS OF PLANT:	<u>915,549</u>	<u>649,186</u>
CHANGE IN NET POSITION	<u>2,941,451</u>	<u>2,204,231</u>
BEGINNING NET POSITION	86,206,945	84,002,714
ENDING NET POSITION	<u><u>\$ 89,148,396</u></u>	<u><u>\$ 86,206,945</u></u>

See notes to basic financial statement

**ROGUE VALLEY SEWER SERVICES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from service accounts	\$ 8,703,793	\$ 8,033,253
Cash received from system development charges	639,308	606,851
Cash received from other operating activities	1,736,385	1,456,310
Cash payments to suppliers for goods and services	(4,049,596)	(4,703,125)
Cash payments to employees for services	(2,901,919)	(2,733,920)
	<u>4,127,971</u>	<u>2,659,369</u>
Net cash provided by operating activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(1,573,599)	(1,012,251)
Principal and return of premium long term debt	(423,373)	(478,049)
Interest paid (excludes premium amortization)	(87,196)	(98,295)
Cash received from the sale of property plant and equipment	3,300	125,300
	<u>(2,080,868)</u>	<u>(1,360,862)</u>
Net cash used by capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal received on notes receivable	18,216	21,049
Principal received on special assessments	38,205	66,068
Interest received on special assessments	12,114	15,316
Interest received on investments	71,172	28,506
	<u>139,707</u>	<u>130,939</u>
Net cash used by capital and related investing activities		
Net increase in cash and cash equivalents	2,186,810	1,327,013
Cash and cash equivalents at the beginning of the year	5,860,460	4,533,447
Cash and cash equivalents at the end of the year	<u>\$ 8,047,270</u>	<u>\$ 5,860,460</u>

See notes to basic financial statements

**ROGUE VALLEY SEWER SERVICES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (expense)	\$ 2,031,805	\$ 1,566,087
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation	1,829,777	1,862,091
New assessments	(26,735)	
Decrease (increase) in accounts and service charges receivable	(76,559)	(174,445)
Decrease (increase) in materials and supplies inventory	9,886	13,130
Decrease (increase) in prepaid expenses	697	(312)
(Decrease) increase in accounts payable and related liabilities	345,925	(773,708)
(Decrease) increase in unearned revenue	13,175	166,526
	<u>\$ 4,127,971</u>	<u>\$ 2,659,369</u>
Schedule of Noncash Capital and Related Financing Activities		
Noncash Contributed Capital Asset	\$ 915,549	\$ 649,186
Noncash Interest Income on Assessments	\$ 1,045	\$ 1,031

See notes to basic financial statements

ROGUE VALLEY SEWER SERVICES
Notes to the Financial Statements
June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies

The Reporting Entity

The District is a Municipal Corporation formed in September 21, 1966, under the provisions of Oregon Revised Statutes, Chapter 450, with a favorable public election held on August 30, 1966, to own and operate an interceptor sewer system. The system consists of the Upper Bear Creek Interceptor, Lower Bear Creek Interceptor, Dunn Pump Station and Pressure Main. The system includes a 20-million gallon per day raw sewage pumping station and a 31-acre 2-cell treatment lagoon. The District also owns and operates many trunk projects covering approximately 190 square miles within the Rogue Valley, and provides sewer services to the cities of Central Point, Eagle Point, Jacksonville, Talent, and Phoenix, Oregon and portions of the City of Medford, Oregon. The District has no potential or actual component units.

Administrative functions of the District are directed by the Manager of the District who reports to the Board of Directors.

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

Basis of Accounting

The District's financial statements are prepared on the accrual basis of accounting using the "economic resources" measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred, regardless of the timing of the related cash flow. Accordingly, all assets and liabilities are reflected within the statement of net position with the equity section representing "total net position."

- 1) In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently does not have any items that qualify for reporting in this category.
- 2) In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition on net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently does not have any items that qualify for reporting in this category.

Operating Revenues and Expenses

Proprietary funds (enterprise) distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are sewer service charges. Sewer service revenue is recorded when the service is rendered. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased and all amounts in pooled accounts to be cash equivalents.

ROGUE VALLEY SEWER SERVICES
Notes to the Financial Statements
June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies (continued)

Service Charges Receivable

Service charges receivable represents earned but uncollected user charges. Delinquent service billings are forwarded to Jackson County Assessor to be added on to the respective property owner's property tax bill. The amount due from property owners for delinquent service billings that the District certified with the County Assessor was \$13,132 and \$12,556 for fiscal years ended June 30, 2017 and 2016, respectively. This amount has been aggregated with the service charges receivable. The certification with the County results in a lien being applied against the property. Consequently, no allowance for uncollectibles has been set aside.

Assessments Revenue and Receivables

The District offers financing for Local Improvement District (LID) assessments to customers who are unable to pay assessment fees up front. Assessment revenues and the associated receivables are recorded at the time the associated project is completed.

Inventories

Inventories, which consist of operating materials and supplies, are reported at cost using the weighted average cost pricing method, and are charged against operations when used.

Restricted Assets

Certain assets of the District have been restricted for specified purposes as required by Oregon Revised Statutes or obligation agreements.

Capital Assets

Purchased capital assets are stated at cost where historical records are available and at estimated historical cost where no historical records exist. Major additions, improvements and replacements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Donated capital assets are stated at estimated fair value at the date of donation. Gains or losses realized from the disposition of capital assets are reflected in the statement of operations. The District capitalizes all individual items over \$3,000, except for rehabilitation projects which use a \$5,000 capitalization limit.

Property, plant and equipment are depreciated using the straight-line method over their estimated lives as follows:

Utility plant	75 years
Buildings	25 years
Furniture, fixtures and equipment	5 and 10 years

Sewer system buy-in costs have an indefinite life and are therefore not amortized.

Estimates

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

ROGUE VALLEY SEWER SERVICES
Notes to the Financial Statements
June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies (continued)

Long-Term Debt

In the financial statements, long-term debt is reported as a liability in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Debt issue costs are expensed as incurred.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. A liability is recorded for qualified sick pay benefits, that are eligible to be converted to vacation leave according to District policy, all other sick pay is not recorded since it is nonvesting (not paid upon termination).

Risk Management

The District is exposed to various risks of loss during its ordinary course of business. To mitigate the risk of loss, various commercial insurance policies have been purchased and are reviewed for adequacy by management annually. There have been no significant changes in coverage nor have any settlements exceeded insurance coverage in the past three years. The District has several programs to protect against the risk of loss of life or assets. The insurance program includes the “normal” coverage subject to nominal deductibles for commercial, auto, property, liability, etc., as well as treasurer’s bonding, director and officer liability, expense for effluent spills from collection system infrastructure and pump stations and computer systems. The District is self-insured for purposes of unemployment compensation claims.

Net Position

In the government-wide financial statements, equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increase by balances of deferred outflows of resources related to those assets.
- b. Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the District’s bonds. Restricted net position is reduced by liabilities and deferred inflows or resources related to the restricted assets.
- c. Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purpose for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The District’s policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expense.

ROGUE VALLEY SEWER SERVICES
Notes to the Financial Statements
June 30, 2017 and 2016

Note 2 – Stewardship, Compliance and Accountability

Budgetary Information

For financial reporting and operating purposes, the District considers its activities as those of a unitary enterprise operation (proprietary fund). Therefore, these activities are reported in a single enterprise fund. However, for legal requirements as set forth in the Oregon Local Budget Law, the District prepares and adopts a budget on the modified accrual basis for its individual fund types. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. For all funds, the District has established the level of control by expenditure category. These categories include: personal services, materials and services, capital outlay, contingency, debt service and transfers to other funds.

Unexpected additional resources and related expenditures may be added to the budget through the use of a supplemental budget and appropriate resolution. A supplemental budget requires hearings before the public, publications in newspapers and approval by the Board of Directors. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Transfers require the approval of the Board of Directors. All annual appropriations lapse at fiscal year end. The District does not use encumbrance accounting.

Excess of Expenditures Over Appropriations

During the 2016-2017 fiscal year, over-expenditures occurred at the level of control established by appropriation resolutions as follows:

<u>Budgetary Fund</u>	<u>Materials and Services</u>	<u>Debt Service</u>	<u>Transfers Out</u>	<u>Interfund loan Payment</u>
General Fund	\$ -	\$ 1,000	\$ 5,181	\$ -
Bear Creek Interceptor Operations & Maintenance Fund	\$ 6,365	\$ -	\$ 88,559	\$ -
Dunn Pump Station Operation & Maintenance Fund	\$ 8,615	\$ -	\$ 580	\$ -
Storm Water Quality Fund	\$ -	\$ -	\$ 50,275	\$ -
Shady Cove O & M	\$ -	\$ -	\$ 67,292	\$ 150,000

The most significant overage associated with excess expenditures over appropriations had to do with unanticipated in fees for services, and an interfund loan repayment.

ROGUE VALLEY SEWER SERVICES
Notes to the Financial Statements
June 30, 2017 and 2016

Note 3 – Cash and Cash Equivalents and Investments

Cash and cash equivalents at June 30, 2017 and 2016, consisted of the following:

	2017	2016
Cash on Deposit with Financial Institution	\$ 291,829	\$ 142,862
Local Government Investment Pool (LGIP)	7,754,791	5,716,948
Cash on Hand	650	650
Totals	\$ 8,047,270	\$ 5,860,460

State statutes and the District’s investment policy govern the District’s cash management policies, because the District does not have an official investment policy. Statutes and the District’s policy authorize the District to invest in the Oregon State Treasurer’s Local Government Investment Pool, time certificates of deposit, U.S. Government Treasury Obligations, and Obligations of the United States and its agencies and instrumentalities.

Local Government Investment Pool

The State Treasurer’s Local Government Investment Pool (2a7 – Like Pool) is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State’s investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. Amounts in the State Treasurer’s Local Government Investment Pool are not required to be collateralized. There is no material difference between the fair value of the District’s position in the State Treasurer’s Local Government Investment Pool and the value of the pool shares at June 30, 2017.

Credit Risk

The District has no investment policy, but, in practice, limits investment to the LGIP and certificates of deposit, which are not rated.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of bank failure, the District’s deposits may not be returned. The District’s cash is covered by federal depository insurance or by the Public Funds Collateralization Program (PFCP) of the State of Oregon. The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued of at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. At June 30, 2017, the District’s bank statement and certificates of deposit bank balances totaled \$291,829. Of this balance, \$41,029 was not insured by federal depository insurance.

ROGUE VALLEY SEWER SERVICES
Notes to the Financial Statements
June 30, 2017 and 2016

Note 4 – Receivables

Assessments receivable represent the uncollected amounts levied against benefited property for the cost of local improvements. Because the assessments are liens against the benefited property, an allowance for uncollectible amounts is deemed unnecessary. Delinquent assessments receivable at June 30, 2017 and 2016 were approximately \$1,044 and \$1,031, respectively. Assessments are payable over a period of 5 to 20 years and bear a rate of interest between 4.0% and 5.5%.

The District has a note receivable from the sale of the old office building in the amount of \$380,768 as of June 30, 2017. The interest rate for the note receivable as of June 30, 2017 was 1.60%. Payments of principal and interest are made monthly and the loan matures on February 15, 2018.

Cash held by the City of Eagle Point for debt reserve requirement totaled \$132,038 as of June 30, 2017. This amount is reported as reserves held by the City of Eagle Point. The \$132,038 was returned to the District during fiscal 2018 as the associated loan matured in September of 2016.

Note 5 – Capital assets

Following is a summary of changes in the capital assets and depreciation for the fiscal year ended June 30, 2017.

	Balance July 1, 2016	Developer Contributions/ Additions	Deletions	Transfer to (From) Construction In-Progress	Balance June 30, 2017
Capital Assets Not Being Depreciated:					
Land	\$ 427,982	\$ -	\$ -	\$ -	\$ 427,982
Site Improvements	210,615	-	-	-	210,615
Construction-In-Progress	238,952	2,294,046	(17,964)	(1,102,320)	1,412,714
Capital Assets Being Depreciated:					
Utility Plant	106,247,833	-	-	1,102,320	107,350,153
Buildings	1,665,184	-	-	-	1,665,184
Furniture, Fixture and Equipment	4,255,494	195,102	(27,815)	-	4,422,781
Total Property, Plant, and Equipment	113,046,060	2,489,148	(45,779)	-	115,489,429
Accumulated Depreciation:					
Utility Plant	(27,588,876)	(1,431,893)	-	-	(29,020,769)
Buildings	(832,818)	(66,607)	-	-	(899,425)
Furniture, Fixture, and Equipment	(3,105,358)	(331,277)	27,815	-	(3,408,820)
Total Accumulated Depreciation	(31,527,052)	(1,829,777)	27,815	-	(33,329,014)
Intangible Asset-System Buy-In-Costs	1,450,481	-	-	-	1,450,481
Capital Assets, Net	\$ 82,969,489	\$ 659,371	\$ (17,964)	\$ -	\$ 83,610,896

Of the total capital asset additions of \$2,489,148 during fiscal 2017, \$915,549 was sewer systems contributed by the property developers.

ROGUE VALLEY SEWER SERVICES
Notes to the Financial Statements
June 30, 2017 and 2016

Note 5 – Capital assets (continued)

Following is a summary of changes in the capital assets and depreciation for the fiscal year ended June 30, 2016.

	Balance July 1, 2015	Developer Contributions/ Additions	Deletions	Transfer to (From) Construction In-Progress	Balance June 30, 2016
Capital Assets Not Being Depreciated:					
Land	\$ 427,982	\$ -	\$ -	\$ -	\$ 427,982
Site Improvements	210,615	-	-	-	210,615
Construction-In-Progress	928,426	1,466,729	(78,689)	(2,077,514)	238,952
Capital Assets Being Depreciated:					
Utility Plant	104,170,319	-	-	2,077,514	106,247,833
Buildings	1,665,184	-	-	-	1,665,184
Furniture, Fixture and Equipment	4,342,469	194,708	(281,683)	-	4,255,494
Total Property, Plant, and Equipment	111,744,995	1,661,437	(360,372)	-	113,046,060
Accumulated Depreciation:					
Utility Plant	(26,160,236)	(1,428,640)	-	-	(27,588,876)
Buildings	(766,211)	(66,607)	-	-	(832,818)
Furniture, Fixture, and Equipment	(3,020,197)	(366,844)	281,683	-	(3,105,358)
Total Accumulated Depreciation	(29,946,644)	(1,862,091)	281,683	-	(31,527,052)
Intangible Asset-System Buy-In-Costs	1,450,481	-	-	-	1,450,481
Capital Assets, Net	<u>\$ 83,248,832</u>	<u>\$ (200,654)</u>	<u>\$ (78,689)</u>	<u>\$ -</u>	<u>\$ 82,969,489</u>

Of the total capital asset additions of \$1,661,437 during fiscal 2016, \$649,186 was sewer systems contributed by the property developers.

ROGUE VALLEY SEWER SERVICES
Notes to the Financial Statements
June 30, 2017 and 2016

Note 6 – Long-Term Debt

Notes Payable

Notes Payable to the City of Eagle Point

In 1998, the District entered into an intergovernmental agreement with the City of Eagle Point (the City) for the purpose of furthering economy and efficiency of local government. As a result, the City's sewer system assets were transferred to the District and the City financed additional costs necessary to connect the existing sewer system to the Districts system. In consideration for the assets, among other provisions, the District agreed to pay the debt service costs associated to the following City Obligations:

- City of Eagle Point Oregon Department of Environmental Quality Loan #R30021 that was consummated by the City in 1995 for sewer transport system improvements. The loan was fully paid off in September of 2016. The reserve of \$132,038 was refunded to the District on August 10, 2017 (subsequent to year end).
- City of Eagle Point Oregon Economic Development Department Loan #G96006 that was consummated by the City in 1997 for improvements in the sewer system. The loan matures in December of 2017, and carries an interest rate of 5.01%.

Future maturities of the note payable at June 30, 2017 are as follows:

Year ended June 30,	Principal	Interest
2018	\$ 42,184	\$ 896

Bonds Payable

A summary of the District's bonded debt is as follows:

Series 2013 Obligations

On April 23, 2013, the District (Authority) entered into an Escrow Agreement and Financing Agreement with U.S. Bank National Association (Escrow Agent). The District entered into the Escrow Agreement to provide for the issuance of \$4,455,000 Full Faith and Credit Obligations (the Series 2013 Obligations) which will be paid from financing payments the District makes under the Financing Agreement. Under the Financing Agreement, the Series 2013 Obligations are secured by and payable from the Districts general non-restricted revenues and other funds that may be available. The obligation to pay the financing payments is a full faith credit obligation of the District and is not subject to appropriation. However, the obligation to pay the financing payments is not a general obligation.

The Series 2013 Obligations were issued at a premium of \$237,672. The premium represents interest paid in advance to the District by Obligation holders who then receive a return of this premium in the form of larger periodic interest payments. The bond premium will be amortized using the effective interest method over the life of the obligations.

The Series 2013 Obligations were issued to currently refund the Oregon Department of Environmental Quality State Loan R78495, R14001, R14002, and state Loan R14003. In addition, the Series 2013 Obligations were issued to pay the cost of issuance.

The Series 2013 Obligations stated interest rate ranges between 2% and 4% based upon maturity date of each obligation. Interest is payable semiannually on April 1 and October 1 each year. Principal payments are due annually on October 1 of each year.

ROGUE VALLEY SEWER SERVICES
Notes to the Financial Statements
June 30, 2017 and 2016

Note 6 – Long-Term Debt (continued)

Series 2013 Obligations (continued)

The obligations that mature after October 1, 2023 are not subject to optional redemption. The obligations that mature after October 1, 2023 are referred to as Term Obligations. The principal components of the Term Obligations are subject to prepayment prior to their respective payment dates in whole or in part on any date on or after October 1, 2022, upon the exercise by the District of its option to prepay the principal components of the financing payments.

Future maturities of the Series 2013 Obligations payable at June 30, 2017, are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Premium / (Discount)</u>	<u>Interest</u>
2018	\$ 290,000	\$ 28,024	\$ 76,264
2019	295,000	25,514	71,793
2020	305,000	19,704	66,608
2021	310,000	13,359	60,604
2022	265,000	8,309	54,604
2023-2027	1,240,000	1,858	176,533
2028-2031	645,000	(986)	19,825
	<u>\$ 3,350,000</u>	<u>\$ 95,782</u>	<u>\$ 526,231</u>

The Series 2013 Obligations were sold at a premium of \$237,672. The premium balance at June 30, 2017 was \$95,782. The premium amount is netted within the Series 2013 Obligations principal balance on the Statement of Net Position. For the year ended June 30, 2016, \$32,141 was paid/amortized to obligation holders.

During the fiscal year ended June 30, 2017, the following changes occurred in long term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note Payable City of Eagle Point #R30021	\$ 66,637	\$ -	\$ (66,637)	\$ -	\$ -
Note Payable City of Eagle Point #G96006	84,019		(41,836)	42,183	42,182
Series 2013 Obligation	3,635,000	-	(285,000)	3,350,000	290,000
	<u>3,785,656</u>	<u>-</u>	<u>(393,473)</u>	<u>3,392,183</u>	<u>332,182</u>
Unamortized premium	125,681	-	(29,900)	95,781	28,024
Total	<u>\$ 3,911,337</u>	<u>\$ -</u>	<u>\$ (423,373)</u>	<u>\$ 3,487,964</u>	<u>\$ 360,206</u>

Note 7 – Retirement Plan

The District contributes to the ICMA Retirement Corporation 401A Retirement Plan, a defined contribution pension plan administered by the District for substantially all employees who have met the requirement of six months of service. Through resolution, the District contributes 8.6% of eligible employee compensation, and employees contribute a mandatory 6% of compensation to a retirement plan created in accordance with the Internal Revenue Code (IRC) Section 401(a). Employees are eligible to receive benefits under this plan upon termination from employment or retirement and reaching age 55. The board of directors established the retirement plan by a board resolution, and can amend the plan through a board resolution.

ROGUE VALLEY SEWER SERVICES
Notes to the Financial Statements
June 30, 2017 and 2016

Note 7 – Retirement Plan (continued)

The manager receives an additional contribution from the District to an IRC Section 457 deferred compensation account of approximately \$1,694 per month.

Contributions to the 401A plan made by the District for fiscal year ended June 30, 2017 were \$173,067 on eligible compensation of \$1,932,336, which was equal to the District's contribution rate of 8.6%. The District's total payroll for the year, including eligible and ineligible compensation, totaled \$2,115,590. Compensation data for fiscal year ended June 30, 2016 showed contributions of \$155,168 on eligible compensation of \$1,804,279, which was equal to the District's contribution rate of 8.6%. The total compensation of the District for the fiscal year ended June 30, 2016 was \$1,984,790.

Note 8 – Contingent Liabilities

Management is not aware of any contingent liabilities that would require disclosure under GAAP contingency topic 5, which include among other things: notes or accounts receivable which have been discounted; pending suits, hearings, or negotiations possibly involving retroactive judgments or claims; taxes in dispute; endorsements or guarantees; and options given.

Note 9 – Subsequent Events

Management of Rogue Valley Sewer Services has evaluated events and transactions occurring after June 30, 2017, through November 30, 2017, the date the financial statements were available for issuance, for recognition and/or disclosure in the financial statements.

ROGUE VALLEY SEWER SERVICES

Jackson County, Oregon

OTHER SUPPLEMENTARY INFORMATION



DESCRIPTION OF BUDGETARY FUNDS
June 30, 2017

For financial reporting and operating purposes, management considers the activities of the District to be those of unitary enterprise operation. Therefore, these activities are reported in a single fund in the general purpose financial statements. However, for budgetary and legal purposes these activities are accounted for in the funds described below on a modified accrual basis of accounting.

GENERAL FUND – The General fund accounts for the District’s normal recurring sewage operations. The primary source of revenue is sewer service fees. The General Fund is also used to account for sewer lines and other major construction activities. All system development charges and fees associated with the construction of projects are credited to this fund. It also accounts for the proceeds of any loans used to finance projects and associated debt payments.

BEAR CREEK INTERCEPTOR OPERATIONS AND MAINTENANCE FUND – The Bear Creek Interceptor and Maintenance Fund is used to account for the maintenance costs associated with Bear Creek Interceptor that is shared by the District with the cities of Medford, Jacksonville, and Phoenix. The District operates and maintains the capital facilities for the benefit of the above mentioned entities, and each is billed monthly for their share of cost.

DUNN PUMP STATION OPERATION AND MAINTENANCE FUND – The Dunn Pump Station Operation and Maintenance Fund is used to account for the maintenance cost of the regional pump station capital facilities. The facilities are owned jointly by the District and the City of Medford. The District operates and maintains the capital facilities for the benefit of the above mentioned entities. The costs to operate and maintain the Dunn pump station capital facilities and the related revenues are accounted for in this fund.

INTERCEPTOR CAPITAL EXPANSION FUND – The Interceptor Capital Expansion fund is used to account for the capital expansion of the regional Bear Creek interceptor and Kirtland pump station capital facilities. The facilities are owned jointly by the District and the City of Medford. The District operates and maintains the capital facilities for the benefit of the above mentioned entities. The costs to operate and maintain the interceptor capital expansion and the related revenues are accounted for in this fund.

WHITE CITY STORM DRAIN FUND – The White City Storm Drain Fund was established to upgrade and maintain certain portions of the industrial side of White City storm drain area not maintained by the County.

STORM WATER QUALITY FUND – In order to protect and improve the quality of water in wells, creeks and rivers, the federal government has established a more stringent storm water program. This fund was created to account for the receipt of a new monthly fee and the expenditures regarding storm water quality.

SHADY COVE O & M FUND – The Shady Cove O & M Fund is a dedicated fund established in 2011 to operate and maintain the sanitary sewers in Shady Cove for 5 years. In FY 2017, this agreement was renewed for an additional 10 years.

SHADY COVE CAPITAL FUND – The Shady Cove Capital Fund is a dedicated fund established in 2011 to pay for capital improvements within the Shady Cove Collection system and treatment plant for 5 years. Under this agreement, RVSS is charged with the planning and implementation of a capital improvement plan designed to ensure adequate system capacity and regulatory compliance. In FY 2017, this agreement was renewed for an additional 10 years.

**ROGUE VALLEY SEWER SERVICES
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND (01)
FISCAL YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Sewer service charges	\$ 8,305,872	\$ 8,305,872	\$ 8,069,963	\$ (235,909)
System development charges	580,000	580,000	494,577	(85,423)
Loan payments - principle and interest	55,000	55,000	50,319	(4,681)
Plan review, other fees	108,300	108,300	134,482	26,182
Interest earned on investments	5,000	5,000	2,039	(2,961)
Property tax transfer Eagle Point	70,000	70,000	69,809	(191)
Sale of fixed assets	8,000	8,000	3,300	(4,700)
Interfund overhead reimbursement	240,000	240,000	406,703	166,703
Other revenues	100,000	100,000	237,314	137,314
TOTAL REVENUES	9,472,172	9,472,172	9,468,506	(3,666)
EXPENDITURES				
Personal services	3,040,441	3,040,441	2,927,790	112,651
Materials and services	4,057,715	4,057,715	3,957,395	100,320
Capital outlay	2,653,960	2,653,960	1,239,784	1,414,176
Debt service	239,958	239,958	240,958	(1,000)
Contingency	150,000	150,000	-	150,000
TOTAL EXPENDITURES	10,142,074	10,142,074	8,365,927	1,776,147
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(669,902)	(669,902)	1,102,579	1,772,481
OTHER FINANCING SOURCES (USES)				
Interfund loan receipt	-	-	150,000	150,000
Transfers in	468,000	468,000	568,793	100,793
Transfers out	(500,000)	(500,000)	(505,181)	(5,181)
TOTAL OTHER FINANCING SOURCES (USES)	(32,000)	(32,000)	213,612	245,612
NET CHANGE IN NET POSITION	(701,902)	(701,902)	1,316,191	2,018,093
NET POSITION, July 1, 2016	752,649	752,649	913,000	160,351
NET POSITION, June 30, 2017	\$ 50,747	\$ 50,747	\$ 2,229,191	\$ 2,178,444

**ROGUE VALLEY SEWER SERVICES
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
BEAR CREEK INTERCEPTOR OPERATIONS & MAINTENANCE FUND (04)
FISCAL YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Maintenance fees	\$ 40,000	\$ 40,000	\$ 45,540	\$ 5,540
Interest earned on investments	600	600	2,937	2,337
TOTAL REVENUES	40,600	40,600	48,477	7,877
EXPENDITURES				
Materials and services	40,800	40,800	47,165	(6,365)
Contingency	100,000	100,000	-	100,000
TOTAL EXPENDITURES	140,800	140,800	47,165	93,635
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(100,200)	(100,200)	1,312	101,512
OTHER FINANCING SOURCES (USES)				
Transfers in	150,000	150,000	167,322	17,322
Transfers out	(177,500)	(177,500)	(266,059)	(88,559)
TOTAL OTHER FINANCING SOURCES (USES)	(27,500)	(27,500)	(98,737)	(71,237)
NET CHANGE IN NET POSITION	(127,700)	(127,700)	(97,425)	30,275
NET POSITION, JULY 1, 2016	198,447	198,447	252,886	54,439
NET POSITION, JUNE 30, 2017	\$ 70,747	\$ 70,747	\$ 155,461	\$ 84,714

**ROGUE VALLEY SEWER SERVICES
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DUNN PUMP STATION OPERATION & MAINTENANCE FUND (06)
FISCAL YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Interest earned on investments	\$ 900	\$ 900	\$ 5,824	\$ 4,924
TOTAL REVENUES	<u>900</u>	<u>900</u>	<u>5,824</u>	<u>4,924</u>
EXPENDITURES				
Materials and services	79,400	79,400	88,015	(8,615)
Contingency	75,000	75,000	-	75,000
TOTAL EXPENDITURES	<u>154,400</u>	<u>154,400</u>	<u>88,015</u>	<u>66,385</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(153,500)</u>	<u>(153,500)</u>	<u>(82,191)</u>	<u>71,309</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	150,000	150,000	250,000	100,000
Transfers out	(23,500)	(23,500)	(24,080)	(580)
TOTAL OTHER FINANCING SOURCES (USES)	<u>126,500</u>	<u>126,500</u>	<u>225,920</u>	<u>99,420</u>
NET CHANGE IN NET POSITION	<u>(27,000)</u>	<u>(27,000)</u>	<u>143,729</u>	<u>170,729</u>
NET POSITION, JULY 1, 2016	<u>372,873</u>	<u>372,873</u>	<u>370,779</u>	<u>(2,094)</u>
NET POSITION, JUNE 30, 2017	<u><u>\$ 345,873</u></u>	<u><u>\$ 345,873</u></u>	<u><u>\$ 514,508</u></u>	<u><u>\$ 168,635</u></u>

**ROGUE VALLEY SEWER SERVICES
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
INTERCEPTOR CAPITAL EXPANSION FUND (07)
FISCAL YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Maintenance fees	\$ 400,000	\$ 400,000	\$ 398,471	\$ (1,529)
Interest earned on investments	7,000	7,000	39,562	32,562
TOTAL REVENUES	407,000	407,000	438,033	31,033
EXPENDITURES				
Capital outlay	511,904	511,904	332,073	179,831
Debt service	269,612	269,612	269,611	1
Contingency	350,000	350,000	-	350,000
TOTAL EXPENDITURES	1,131,516	1,131,516	601,684	529,832
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(724,516)	(724,516)	(163,651)	560,865
OTHER FINANCING SOURCES (USES)				
Transfers in	350,000	350,000	337,860	(12,140)
TOTAL OTHER FINANCING SOURCES (USES)	350,000	350,000	337,860	(12,140)
NET CHANGE IN NET POSITION	(374,516)	(374,516)	174,209	548,725
NET POSITION, JULY 1, 2016	3,008,144	3,008,144	2,959,018	(49,126)
NET POSITION, June 30, 2017	\$ 2,633,628	\$ 2,633,628	\$ 3,133,227	\$ 499,599

**ROGUE VALLEY SEWER SERVICES
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
WHITE CITY STORM DRAIN FUND (09)
FISCAL YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Storm drain fees	\$ 70,000	\$ 70,000	\$ 76,497	\$ 6,497
Interest earned on investments	1,500	1,500	8,648	7,148
TOTAL REVENUES	71,500	71,500	85,145	13,645
EXPENDITURES				
Materials and services	40,000	40,000	30,335	9,665
Capital outlay	311,377	311,377	-	311,377
Contingency	50,000	50,000	-	50,000
TOTAL EXPENDITURES	401,377	401,377	30,335	321,042
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(329,877)	(329,877)	54,810	384,687
OTHER FINANCING SOURCES (USES)				
Transfers out	(10,500)	(10,500)	(2,318)	8,182
TOTAL OTHER FINANCING SOURCES (USES)	(10,500)	(10,500)	(2,318)	8,182
NET CHANGE IN NET POSITION	(340,377)	(340,377)	52,492	392,869
NET POSITION, July 1, 2016	530,165	530,165	603,502	73,337
NET POSITION, June 30, 2017	\$ 189,788	\$ 189,788	\$ 655,994	\$ 466,206

**ROGUE VALLEY SEWER SERVICES
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STORM WATER QUALITY FUND (10)
FISCAL YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Storm water fees	\$ 427,000	\$ 427,000	\$ 430,507	\$ 3,507
Permits and other	9,000	9,000	27,136	18,136
Interest earned on investments	4,000	4,000	12,162	8,162
TOTAL REVENUES	440,000	440,000	469,805	29,805
EXPENDITURES				
Materials and services	53,300	53,300	30,732	22,568
Capital outlay	321,000	321,000	1,742	319,258
Contingency	100,000	100,000	-	100,000
TOTAL EXPENDITURES	474,300	474,300	32,474	441,826
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(34,300)	(34,300)	437,331	471,631
OTHER FINANCING SOURCES (USES)				
Transfers out	(154,500)	(154,500)	(204,775)	(50,275)
TOTAL OTHER FINANCING SOURCES (USES)	(154,500)	(154,500)	(204,775)	(50,275)
NET CHANGE IN NET POSITION	(188,800)	(188,800)	232,556	421,356
NET POSITION, July 1, 2016	716,528	716,528	776,220	59,692
NET POSITION, June 30, 2017	\$ 527,728	\$ 527,728	\$ 1,008,776	\$ 481,048

**ROGUE VALLEY SEWER SERVICES
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SHADY COVE O & M (50)
FISCAL YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Shady Cove O & M fees	\$ 375,000	\$ 375,000	\$ 345,000	\$ (30,000)
SC septage	123,000	123,000	195,633	72,633
TOTAL REVENUES	498,000	498,000	540,633	42,633
EXPENDITURES				
Materials and services	156,347	156,347	136,050	20,297
TOTAL EXPENDITURES	156,347	156,347	136,050	20,297
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	341,653	341,653	404,583	62,930
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	730	730
Transfers out	(255,000)	(255,000)	(322,292)	(67,292)
Interfund loan payment	-	-	(150,000)	(150,000)
TOTAL OTHER FINANCING SOURCES (USES)	(255,000)	(255,000)	(471,562)	(216,562)
NET CHANGE IN NET POSITION	86,653	86,653	(66,979)	(153,632)
NET POSITION, July 1, 2016	(119,935)	(119,935)	118,967	238,902
NET POSITION, June 30, 2017	\$ (33,282)	\$ (33,282)	\$ 51,988	\$ 85,270

**ROGUE VALLEY SEWER SERVICES
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SHADY COVE CAPITAL (55)
FISCAL YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Shady Cove capital fees	\$ 126,000	\$ 126,000	\$ 60,000	\$ (66,000)
TOTAL REVENUES	<u>126,000</u>	<u>126,000</u>	<u>60,000</u>	<u>(66,000)</u>
EXPENDITURES				
Capital outlay	168,160	168,160	71,564	96,596
TOTAL EXPENDITURES	<u>168,160</u>	<u>168,160</u>	<u>71,564</u>	<u>96,596</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(42,160)</u>	<u>(42,160)</u>	<u>(11,564)</u>	<u>30,596</u>
NET CHANGE IN NET POSITION	(42,160)	(42,160)	(11,564)	30,596
NET POSITION, July 1, 2016	<u>42,257</u>	<u>42,257</u>	<u>15,261</u>	<u>(26,996)</u>
NET POSITION, June 30, 2017	<u>\$ 97</u>	<u>\$ 97</u>	<u>\$ 3,697</u>	<u>\$ 3,600</u>

**ROGUE VALLEY SEWER SERVICES
RECONCILIATION OF REVENUE AND EXPENDITURES (MODIFIED ACCURAL BASIS)
TO CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 AND 2016**

	Revenues	Expenditures	Other Financing		Transfers	Change in net position
			Source	Use		2017
General Fund (01)	\$ 9,468,506	\$ 8,365,927	\$ 150,000	\$ -	\$ 63,612	\$ 1,316,191
Bear Creek Interceptor						
Oper & Maint. Fund (04)	48,477	47,165	-	-	(98,737)	(97,425)
Dunn Pump Station						
Oper & Maint Fund (06)	5,824	88,015	-	-	225,920	143,729
Interceptor Capital						
Expansion Fund (07)	438,033	601,684	-	-	337,860	174,209
White City Storm Drain Fund (09)	85,145	30,335	-	-	(2,318)	52,492
Storm Water Quality Fund (10)	469,805	32,474	-	-	(204,775)	232,556
Shady Cove O & M (50)	540,633	136,050	-	(150,000)	(321,562)	(66,979)
Shady Cove Capital (55)	60,000	71,564	-	-	-	(11,564)
Total income over (under) expenditures - Budget Basis	\$ 11,116,423	\$ 9,373,214	\$ 150,000	\$ (150,000)	\$ -	\$ 1,743,209

Additions (deductions) to reconcile net change in fund balance on a budgetary basis to change in net position on a GAAP basis:

Acquisition of property, plant and equipment	1,573,599
Depreciation	(1,829,777)
Developers contribution of plant	915,549
Cash received on disposal	(3,300)
Loss on disposal (GAAP)	(14,664)
Principal paid on bonds, notes & capital leases	423,373
Principal received on note receivable	(18,216)
To record GAAP basis sewer service revenue and other revenue	239,571
Compensated absences	(22,637)
To record GAAP basis interest revenue	7,477
To record GAAP basis assessment revenue	(11,645)
Inventory	9,886
Accrued interest	(5,194)
Other	(65,780)
Change in net position - GAAP basis	\$ 2,941,451

ROGUE VALLEY SEWER SERVICES

Jackson County, Oregon

STATISTICAL SECTION



**ROGUE VALLEY SEWER SERVICES
STATISTICAL SECTION
(Unaudited)**

This part of Rogue Valley Sewer Services' Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and supplementary information. This information has not been audited by the independent auditors.

Contents	Page
Financial Trends These schedules contain trend information that may assist the reader in assessing the District's financial performance placing it in historical perspective.	25 - 26
Revenue Capacity These schedules contain information that may assist the reader in assessing the District's most significant local revenue source, the District water rate.	27 - 29
Debt Capacity These schedules present information that may assist the reader in analyzing the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	30 - 31
Economic and Demographic Information These schedules offer economic and demographic indicators that may assist the reader in understanding the environment within which the District's financial activities take place.	32 - 33
Operating Information This schedule contains service data that may assist the reader in understanding how the information in the District's financial report relates to the services the District provides and the activities it performs.	34

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

**Rogue Valley Sewer Services
Net Position by Component**

Table 1

for the last ten fiscal years - Unaudited

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Position Components				
Net investment in capital assets	\$ 80,122,932	\$ 79,058,152	\$ 78,859,446	\$ 76,699,741
Restricted	1,509,961	1,439,263	1,309,302	1,060,137
Unrestricted	7,515,503	5,709,530	3,833,966	5,144,550
Total Net Position	<u>\$ 89,148,396</u>	<u>\$ 86,206,945</u>	<u>\$ 84,002,714</u>	<u>\$ 82,904,428</u>

Source: Rogue Valley Sewer Services accounting records

Table 1

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 76,199,276	\$ 76,163,112	\$ 74,983,873	\$74,837,941	\$74,788,590	\$71,849,687
828,344	722,627	523,174	223,150	133,896	133,896
5,024,938	4,569,936	4,493,903	4,263,245	4,450,806	5,763,462
<u>\$ 82,052,558</u>	<u>\$ 81,455,675</u>	<u>\$ 80,000,950</u>	<u>\$79,324,336</u>	<u>\$79,373,292</u>	<u>\$77,747,045</u>

Rogue Valley Sewer Services

Operating Results

Table 2

for the last ten fiscal years - Unaudited

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenue				
Sewer service charges	\$ 8,767,177	\$ 8,041,172	\$ 6,994,396	\$ 6,840,381
System development charges	639,308	606,851	328,157	319,463
Other operating revenues	1,736,385	1,428,711	1,439,449	1,155,144
	<u>11,142,870</u>	<u>10,076,734</u>	<u>8,762,002</u>	<u>8,314,988</u>
Operating expenses:				
Labor and fringe benefits	2,905,850	2,728,191	2,703,183	2,361,332
Treatment charges	3,001,448	2,748,900	2,497,440	2,482,151
Materials and services	1,400,725	1,199,064	1,300,210	1,206,070
Depreciation	1,829,777	1,862,091	1,741,477	1,725,641
	<u>9,137,800</u>	<u>8,538,246</u>	<u>8,242,310</u>	<u>7,775,194</u>
Operating income (loss)	2,005,070	1,538,488	519,692	539,794
Other nonoperating income (loss), net				
Gain(Loss) on disposition of asset	(14,664)	46,611	4,515	46,770
Interest income	90,764	38,101	39,989	43,150
Interest expense	(82,003)	(95,754)	(104,765)	(93,650)
	<u>(5,903)</u>	<u>(11,042)</u>	<u>(60,261)</u>	<u>(3,730)</u>
Developer contribution of plant	915,549	649,186	635,831	407,570
Special assessments	26,735	27,599	3,024	-
Change in net position	<u>\$ 2,941,451</u>	<u>\$ 2,204,231</u>	<u>\$ 1,098,286</u>	<u>\$ 943,634</u>

Source: Rogue Valley Sewer Services accounting records

Table 2

2013	2012	2011	2010	2009	2008
\$ 6,801,091	\$ 6,578,729	\$ 6,636,860	\$ 5,940,531	\$ 5,827,083	\$ 5,868,270
186,638	310,190	93,811	157,554	301,994	1,038,538
1,081,222	934,105	546,681	566,645	545,272	654,189
<u>8,068,951</u>	<u>7,823,024</u>	<u>7,277,352</u>	<u>6,664,730</u>	<u>6,674,349</u>	<u>7,560,997</u>
2,274,062	2,005,587	1,916,816	2,113,149	1,760,493	1,470,287
2,414,519	2,360,774	2,347,878	2,376,409	2,428,051	2,351,193
1,133,978	1,164,091	697,380	704,873	695,939	558,510
1,741,811	1,701,287	1,660,513	1,582,156	1,523,632	1,485,875
<u>7,564,370</u>	<u>7,231,739</u>	<u>6,622,587</u>	<u>6,776,587</u>	<u>6,408,115</u>	<u>5,865,865</u>
504,581	591,285	654,765	(111,857)	266,234	1,695,132
(3,746)	(2,973)	(9,142)	(17,346)	(13,518)	(391)
56,344	53,076	51,735	64,401	122,939	301,500
(178,252)	(190,153)	(185,391)	(89,482)	(64,730)	(142,908)
<u>(125,654)</u>	<u>(140,050)</u>	<u>(142,798)</u>	<u>(42,427)</u>	<u>44,691</u>	<u>158,201</u>
217,962	434,656	164,647	105,328	481,298	2,981,753
-	568,834	-	-	-	-
<u>\$ 596,889</u>	<u>\$ 1,454,725</u>	<u>\$ 676,614</u>	<u>\$ (48,956)</u>	<u>\$ 792,223</u>	<u>\$ 4,835,086</u>

Rogue Valley Sewer Services

Table 3

Permits Issued, Customers, Gallons Transmitted, Rates

for the last ten fiscal years - Unaudited

Fiscal Year Ended June 30th	Number Permits Issued	Residential Units	Commercial Industrial Customers	Total Units/ Customers	Million Gallons Transmitted	Sewer Rates
2017	362	31,844	1,862	33,706	7,424	\$19.60
2016	353	31,346	1,843	33,189	6,868	18.30
2015	364	30,985	1,838	32,823	6,378	15.90
2014	377	31,388	1,835	33,223	6,020	15.90
2013	300	29,654	1,885	31,539	6,611	15.90
2012	217	29,258	1,816	31,074	6,413	15.90
2011	165	28,774	1,795	30,569	7,148	15.90
2010	176	29,086	1,916	31,002	6,080	13.90
2009	234	28,229	1,655	29,884	6,119	13.90
2008	481	27,792	1,639	29,431	6,885	13.90

Source: Rogue Valley Sewer Services accounting and engineering records

Note: Gallons transmitted includes all flows through interceptor pipe operated by RVS
 Amounts include the City of Medford and all other members of the Region

Rogue Valley Sewer Services Demographic Statistics

for the last ten fiscal years - Unaudited

Table 4

Fiscal Year Ended June 30th	RVS Population (Estimated) (1)	Population Jackson County (1)	RVS Personal Income (amounts expressed in thousands)	RVS Per Capita Income (2)	Unemployment Rate (3)	County Population Growth
2017	79,410	213,765	\$ 3,577,341	\$ 45,049	4.2%	1.3%
2016	78,743	210,975	3,383,902	42,974	5.4%	1.2%
2015	77,985	208,375	3,250,493	41,681	6.2%	1.0%
2014	74,590	206,310	3,000,979	40,233	7.1%	0.8%
2013	74,283	204,630	2,881,140	38,786	7.8%	0.3%
2012	73,990	203,950	2,687,095	36,317	8.7%	0.4%
2011	73,696	203,206	2,733,753	37,095	11.1%	-1.8%
2010	72,095	207,010	2,573,792	35,700	12.1%	2.9%
2009	71,168	201,138	2,359,219	33,150	12.0%	-2.0%
2008	71,532	205,305	2,273,645	31,785	6.7%	1.5%

Sources:

- (1) County population estimates are from data developed by Portland State University Population Research Center. Population for 2009/2010 has been estimated by RVS.
- (2) Qualityinfo.org website. Oregon personal income article.
- (3) State of Oregon Employment Dept/Economic Data

Rogue Valley Sewer Services Largest Consumption Customers

Table 5

for the last ten fiscal years - Unaudited

Customer name	June 30, 2017		June 30, 2007		
	Monthly Gallons	Percent Total	Monthly Gallons	Percent Total	
Amy's Kitchen	8,384,545	4.6%	1,119,833	1.5%	(9)
VA Domiciliary	5,461,000	3.0%	2,527,111	3.5%	(5)
Boise Cascade Corp - Antelope	3,776,510	2.1%	7,306,750	10.1%	(1)
Carestream Health Inc	3,328,147	1.8%	2,873,537	4.0%	(4)
Boise Cascade Corp - Beall Ln	2,769,366	1.5%	7,139,417	9.9%	(2)
Bear Creek Operations	1,917,635	1.0%	3,703,768	5.1%	(3)
Dry Creek Landfill Inc	1,620,000	0.9%	-	0.0%	
Roseburg Forest Products	1,353,706	0.7%	-	0.0%	
JaCo Sports Park	1,011,079	0.6%	1,410,478	2.0%	(8)
Southern Oregon Linen	991,000	0.5%	1,072,167	1.5%	(10)
	30,612,988	16.7%	27,153,061	37.5%	
All other commercial customers	152,234,178	83.3%	45,163,049	62.5%	
	182,847,166	100.0%	72,316,110	100.0%	

The above gallons of sewer effluent are the monthly average for respective fiscal years.

Rogue Valley Sewer Services
Ratio of Outstanding Debt by Type

Table 6

for the last ten fiscal years - Unaudited

Fiscal Year Ended June 30th	Bonds	Notes	Revolving DEQ Loans	Total		Percent of Personal Income
				Amount	Per Capita	
2017	\$ 3,445,781	\$42,183	-	\$3,487,964	\$44.30	0.103%
2016	3,760,681	150,654	-	3,911,335	49.67	0.116%
2015	4,072,823	316,562	-	4,389,385	56.28	0.135%
2014	4,372,358	477,160	-	4,849,518	65.02	0.162%
2013	4,685,204	632,656	-	5,317,860	71.59	0.185%
2012	-	778,248	5,141,599	5,919,847	80.01	0.220%
2011	-	919,129	4,880,884	5,800,013	78.70	0.212%
2010	-	1,055,484	3,899,444	4,954,928	68.73	0.193%
2009	-	1,187,491	3,812,618	5,000,109	70.26	0.212%
2008	-	1,310,330	3,077,030	4,387,360	61.33	0.193%

Notes:

Bonds include general obligation improvement bonds and limited tax and assessment bonds

Rogue Valley Sewer Services Debt Coverage Ratio

Table 7

for the last ten fiscal years - Unaudited

Fiscal Year Ended June 30th	Operating Revenues	Less Operating Expenses	Net Available Revenues	Debt Payments			Coverage Ratio
				Principal	Interest	Total	
2017	\$ 11,169,605	\$ 7,308,023	\$ 3,861,582	\$ 393,472	\$ 117,098	\$ 510,570	7.56
2016	10,104,333	6,676,155	3,428,178	445,908	130,435	576,343	5.95
2015	8,765,026	6,500,833	2,264,193	425,598	143,329	568,927	3.98
2014	8,314,988	6,049,553	2,265,435	430,496	147,001	577,497	3.92
2013	8,069,019	5,822,747	2,246,272	422,814	222,161	644,975	3.48
2012	7,874,496	5,530,452	2,344,044	387,032	211,877	598,909	3.91
2011	7,277,352	4,962,074	2,315,278	346,394	196,157	542,551	4.27
2010	6,664,730	5,194,431	1,470,299	216,083	244,727	460,810	3.19
2009	6,674,349	4,884,483	1,789,866	203,830	119,888	323,718	5.53
2008	7,560,997	4,379,990	3,181,007	196,859	128,668	325,527	9.77

Notes:

Operating expenses exclude depreciation and amortization

Rogue Valley Sewer Services
Number of Employees

Table 8

for the last ten fiscal years - Unaudited

Fiscal Year Ended June 30th	Administration	Information Technology	Engineering	Construction	Maintenance	Total
2017	7.85	1.65	4.50	0.00	18.0	32.0
2016	6.00	2.00	5.00	0.00	17.0	30.0
2015	6.0	2.0	5.0	0.0	16.0	29.0
2014	6.0	1.0	4.6	0.0	17.4	29.0
2013	8.0	0.0	10.0	0.0	13.0	31.0
2012	8.0	0.0	9.5	0.0	12.0	29.5
2011	8.0	0.0	11.0	0.0	11.0	30.0
2010	10.0	0.0	10.0	0.0	10.0	30.0
2009	10.0	0.0	9.0	0.0	11.0	30.0
2008	10.5	0.0	9.0	0.0	11.0	30.5

Source: Rogue Valley Sewer Services accounting records

Rogue Valley Sewer Services Principal Employers

2017 and 10 years prior

Table 9

Employer	2017 (1)			Feb 2007 (2)		
	Employees	Rank	% of Total	Employees	Rank	% of Total
Asante	4,231	1	4.41%	3,782	1	11.49%
Lithia Motors	3,000	2	3.13%	470	8	-
Harry & David Operations	2,000	3	2.09%	3,500	2	10.64%
Rogue Valley Medical Center	1,638	4	1.71%	-		-
Allegiant Air	1,500	5	1.56%	-		-
Providence Medical Center	1,300	6	1.36%	1,150	3	3.49%
Medford School District 549C	1,157	7	1.21%	1,083	4	-
Jackson County	1,027	8	1.07%	1,023	5	-
Wal-Mart Stores	930	9	0.97%	-		-
Boise	875	10	0.97%	-		-
	<u>17,658</u>			<u>11,008</u>		

Source:

(1) Chamber of Commerce website - Largest employers in Jackson County

(2) Southern Oregon Regional Economic Development, Inc figures from 2006-2008.

**Rogue Valley Sewer Services
Operating and Capital Indicators**

Table 10

for the last ten fiscal years - Unaudited

<u>Fiscal Year Ended June 30th</u>	<u>Miles of Sewer</u>	<u>Annual Line Capacity Million Gal</u>	<u>Annual Transported Million Gal</u>	<u>Unused Capacity Total</u>	<u>Percentage Capacity Utilized</u>
2017	404	42,340	7,424	34,916	18%
2016	398	42,340	6,868	35,472	16%
2015	398	42,340	6,378	35,962	15%
2014	397	42,340	6,020	36,320	14%
2013	396	42,340	6,611	35,729	16%
2012	395	42,340	7,018	35,322	17%
2011	395	42,340	7,147	35,193	17%
2010	392	42,340	6,080	36,260	14%
2009	392	42,340	6,119	36,221	14%
2008	380	42,340	6,885	35,455	16%

Notes:

Annual line capacity is measured at the entrance to the City of Medford Wastewater Treatment Plant. All flows into the treatment plant come through the District's interceptor system.

Annual transported in millions of gallons is also measured at the entrance of the Wastewater Treatment Plant on a calendar year basis. Data is provided at:

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ROGUE VALLEY SEWER SERVICES

Jackson County, Oregon

COMPLIANCE SECTION



INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

To the Board of Directors
Rogue Valley Sewer Services
Central Point, Oregon

We have audited the basic financial statements of Rogue Valley Sewer Services (the District) as of and for the year ended June 30, 2017, and have issued our report thereon dated November 30, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 statement amounts. However, providing an opinion on compliance with those provisions was not the 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 but were not limited to the following:

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

In connection with our audit, nothing came to our attention that caused us to believe the District 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 Administration Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except as disclosed in Note 2 of the financial statements where it is noted during the fiscal 2017 budget process, certain funds did not budget enough resources to cover requirements in accordance with local budget law.

OAR 162-10-0230 Internal Control

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

Restrictions on Use

This report is intended solely for the information and use of the Board of Directors and management of Rogue Valley Sewer Services and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



Mark E. Damon, CPA, Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
November 30, 2017