

**LAKE GROVE WATER DISTRICT**  
Lake Oswego, Oregon

**AUDIT REPORT**

for the Fiscal Years

**JUNE 30, 2016 and 2015**

Prepared By  
**SIGNE GRIMSTAD**  
Certified Public Accountants  
530 NW 3rd, Suite E  
PO Box 1930  
Newport, Oregon 97365

**LAKE GROVE WATER DISTRICT  
Lake Oswego, Oregon**

**COMMISSIONERS**

Chairperson	Virgil Pearce 4951 SW Oakridge Lake Oswego, OR 97035
Secretary/Treasurer	Colin Luther 16065 SW Kimball St. Lake Oswego, OR 97035
Commissioner	Marjorie Reay 15425 Wesley Ct. Lake Oswego, OR 97035
Commissioner	Larry Kitchen 16173 Bonaire Lake Oswego, OR 97035
Commissioner	JD Pavek 16737 Roosevelt Lake Oswego, OR 97035

**ADMINISTRATORS AND ATTORNEY**

Interim District Manager	Tammy Schalk
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Attorney

Clark Balfour  
1001 SW 5th Ave, Suite 2000  
Portland, OR 97204

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

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**GRIMSTAD & ASSOCIATES**  
Certified Public Accountants

September 7, 2016

**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Lake Grove Water District  
Lake Oswego, Oregon

I have audited the accompanying financial statements of the business-type activities of Lake Grove Water District (District) as of and for the years ended June 30, 2016 and 2015, 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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## Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lake Grove Water District as of June 30, 2016 and 2015, 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, listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

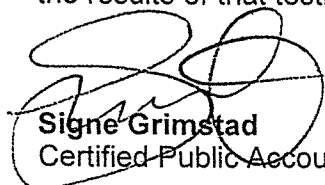
### *Other Information*

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lake Grove Water District's basic financial statements. The budget to actual schedules and reconciliation are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental budget to actual schedules and reconciliation 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 my opinion, the budget to actual schedules and reconciliation are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by Oregon State Regulations

In accordance with the Minimum Standards Audit of Oregon Municipal Corporations, I have issued my report dated September 7, 2016 on my consideration of Lake Grove Water District's compliance with certain laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of my testing of compliance and the results of that testing and not to provide an opinion on compliance.

  
Signe Grimstad  
Certified Public Accountant

## **Lake Grove Water District Management Discussion and Analysis**

This Management Discussion and Analysis (MD&A) is presented by the management of Lake Grove Water District. The narrative overview is intended to assist readers of our financial statements for fiscal year 2015-16, ending June 30, 2016, providing an overview and analysis of the highlights of these statements.

### **Financial Highlights**

- ❖ Total assets of the District was \$2,766,950. This includes capital assets of \$1,426,450 (net of accumulated depreciation), and current assets of \$1,340,500 at June 30, 2016.
- ❖ The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,551,313 (net position). Of this amount, \$631,464 (unrestricted net position) may be used to meet the District's ongoing obligations. Restricted \$493,399 is for system development.
- ❖ Total liabilities was \$215,637, up \$154,705 from last year.
- ❖ The District's net position decreased by \$75,259 from June 30, 2015.
- ❖ Total operating loss for the fiscal year 2015-2016 was \$114,664, compared to a profit of \$175,452 the prior year.
- ❖ Total operating expenses for the fiscal year 2015-2016 were \$1,314,379, up 47% from last year.

### **Overview of the Financial Statements**

Lake Grove Water 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 basic financial statements are comprised of three components; 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, and 3) Statement of Cash Flows. This report also contains other supplementary information in addition to the basic financial statements.

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 if viewed over time. This statement includes all of the District's assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligations of the District's creditors (liabilities). The Statement of Net Position also provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing profitability and credit worthiness as well as how the District's net position changed during the most recent fiscal year. This statement shows income and expenses from operations, non-operating revenues and expenses, and reconciles the change from one fiscal year to the next. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through user fees and other charges.

The Statement of Cash Flows is prepared using the direct method and is concerned solely with input and outlay of cash from operating activities, non-capital financing, capital and related financing activities and investing activities. This statement also includes reconciliation to the Statement of Revenues, Expenses and Changes in Net Position. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. It answers such questions as where did the cash come from, what was the cash used for, and what was the change in cash balance during the reporting period.

## Notes to Basic Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data in the financial statements.

## Financial Analysis

Over time, net position may serve as a useful indicator of the District's financial position. In Lake Grove Water District's case, assets exceeded liabilities by \$2,551,313 at the close of the most recent fiscal year, a decrease of \$75,259.

The largest portion of the District's net position (55.9%) reflects its investment in capital assets (e.g., land, equipment, reservoirs and pipelines). The District uses these assets to provide services to rate payers; consequently, these assets are not available for future spending.

An additional portion of the District's net position (19.34%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (24.76%) may be used to meet the District's ongoing obligations to ratepayers and creditors.

### Statement of Net Position

	2016	2015	Difference	%
Current assets	\$ 1,340,500	\$ 1,265,432	\$ 75,068	5.9%
Capital assets	1,426,450	1,422,072	4,378	0.03%
<b>Total assets</b>	<b>2,766,950</b>	<b>2,687,504</b>	<b>79,446</b>	<b>3.0%</b>
Current liabilities	215,637	60,933	(154,704)	-253.9%
Net invested in capital assets	1,426,450	1,422,072	4,378	0.3%
Restricted	493,399	458,667	34,732	7.6%
Unrestricted	631,464	745,833	(114,369)	-15.3%
<b>Total net position</b>	<b>\$ 2,551,313</b>	<b>\$ 2,626,571</b>	<b>(75,259)</b>	<b>-2.9%</b>

**Statement of Revenues, Expenses and Changes in Net Position**

	2016	2015	Difference	%
<b>Operating Revenues</b>				
Water service	\$ 1,185,774	\$ 1,053,373	\$ 132,401	12.6%
Other services	13,941	14,164	(223)	-1.6%
<b>Total Operating Revenues</b>	<b>1,199,715</b>	<b>1,067,537</b>	<b>132,178</b>	<b>12.4%</b>
<b>Operating Expenses</b>				
Personnel services	373,740	249,582	124,158	49.7%
Materials and services	876,044	581,712	294,332	50.6%
Depreciation	64,595	60,791	3,804	6.3%
<b>Total operating expenses</b>	<b>1,314,379</b>	<b>892,085</b>	<b>422,294</b>	<b>47.3%</b>
<b>Operating Income (Loss)</b>	<b>(114,664)</b>	<b>175,452</b>	<b>(290,116)</b>	<b>-165.4%</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	6,646	4,215	2,431	57.7%
System Development fees and review fees	32,759	18,482	14,277	77.2%
<b>Total nonoperating revenues (expenses)</b>	<b>39,405</b>	<b>22,697</b>	<b>16,708</b>	<b>73.6%</b>
<b>Changes in Net Position</b>	<b>(75,259)</b>	<b>198,149</b>	<b>(273,408)</b>	<b>-138.0%</b>
Net Position - Beginning of year	2,626,571	2,428,422	198,149	8.2%
Net Position - End of year	<b>\$ 2,551,313</b>	<b>\$ 2,626,571</b>	<b>\$ (75,258)</b>	<b>-2.9%</b>

**2016 Operating Loss**

The District attributes the operating loss to unanticipated legal fees, consulting fees, paid leaves of absence, severance amounts paid, and extra payroll expenses required for training new employees.

During the 2015-16 fiscal year, an employee filed a case with Oregon's Bureau of Labor and Industries alleging violation of employment laws. The District initiated an independent investigation managed by the Board's attorney. A consulting investigator, specializing in such cases, was used to establish the facts of the case and suggested some solutions. The District, cautious in its approach, placed the employee on what turned out to be an extended paid leave of absence, and eventually negotiated the employee's resignation in exchange for a severance agreement. During this investigation process, the District Manager indicated a desire to resign and subsequently a severance agreement was also executed in this instance. The District Manager also had a short period of paid absence. The Bureau of Labor and Industries did not find the filed complaint to be substantive and took no action. The result was the unanticipated expenses described above, which are single, isolated events and not a continuing occurrence.

Non-operating income is \$32,759 and interest income \$6,646.



## **Financial Condition**

The District's financial condition remained consistent with the previous year with adequate liquid assets for ongoing operations at a level necessary to meet demand and a reasonable level of unrestricted net position.

Water rates increased during the 2015-16 fiscal year.

## **Capital Asset**

The District's investment in capital assets as of June 30, 2016, amounts to over \$1.4 million (net of depreciation). This investment in capital assets includes land, reservoirs, pipelines, sample stations, and equipment. The District's investment increased slightly during the current fiscal year by \$4,378.

## **Economic Factors and Next Year's Budgets and Finances**

### **Overview**

The District comprises the area lying between the City of Lake Oswego to the North and East; Cities of Rivergrove and Tualatin and the Rivergrove Water District to the South; and Interstate 5 and the City of Tigard to the West. Most of the structures and land uses in the District are single family residential. Older residential properties are generally on larger wooded lots, while newer homes are usually built on sub-divided lots. This trend is resulting in a slow rise in density within the District.

The District has approximately 1,350 customer accounts, about 1,200 of which are residential and they produce close to 60% of operating revenue. The remaining commercial accounts are less than 10% of the total but generate around 40% of operating revenue. Although commercial accounts use much more water per property, on average and as expected, the majority of the District's revenue come from the residential customer.

### **Economy and Weather**

The District does not have the resources to independently make economic or weather forecasts. The District could be characterized as a suburb of Portland with above average per capita income. With the majority of the District's water going to residential customers, unless there is a significant economic downturn, water sales continue and are highest in the summer months, particularly July and August. In the future, the weather may have a larger impact on water usage than the economy. It is too soon to tell but the Board, along with other Portland area water providers, is trying to determine if changing weather patterns will cause system users to place higher demands for water at different times of the year. This may have an impact on water sales and peaking charges. It is too soon to tell.

There are a few development projects underway, primarily residential. Several will be completed in fiscal year 2016-17 resulting in new customers for the District. If the City of Lake Oswego proceeds with the Lower Boones Ferry Road Project, the road improvements could cause some commercial redevelopment.

## **Water Loss and System Integrity**

The District's water loss for the 2015-16 fiscal year was 9.1%. This is an improvement over the prior fiscal year's water loss of 9.5%. The District invested in and brought online a SCADA (supervisory control and data acquisition) system during the fiscal year. This system provides near real time data and control of water flow into and out of the reservoir as well as the reservoir's water level. The data is available to the District at any time via the service provider's internet application and helps the District lower its water costs by closely managing purchased water. The majority of 300 new wireless-read meters were installed as replacements for older manual-read meters. The balance were install subsequent to the close of the fiscal year. In addition, the District completed an update to its Master Distribution Plan during the year. The District is considering changes to the master meter with Portland for better operational control and this may have an impact on the water loss calculation.

## **Rates and Charges**

During the fiscal year the District hired the Oregon Association of Water Utilities to conduct a rate study. The District implemented the recommended rate schedule during the year.

## **Budget for 2016-17**

The District has adopted a budget for the 2016-17 fiscal year. Revenues will be generated under the new rate schedule for the full year. During the year the District's office will be relocated. The lease on the current office will expire in 2017 and the District has located and entered into a sub-lease for an office located within the District. The office expense will increase but not significantly. The move is anticipated to occur in February 2017.

## **Debt**

The District has no outstanding term debt.

## **Requests for Information**

The financial report is designed to provide a general overview of Lake Grove Water District's 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 information should be addressed to the Finance Officer, Lake Grove Water District, PO Box 1176, Lake Oswego, Oregon 97035.

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
as of June 30, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,176,260	\$ 1,106,004
Accounts receivable	144,641	140,025
Prepaid expenses and deposits	9,488	9,283
Inventory	10,111	10,120
Total current assets	1,340,500	1,265,432
<b>Noncurrent assets</b>		
Land	8,457	8,457
Work in progress	0	6,773
Capital assets, net of depreciation	1,417,993	1,406,842
Total noncurrent assets	1,426,450	1,422,072
Total assets	2,766,950	2,687,504
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	179,237	39,160
Accrued compensated absences	5,204	3,650
Deposits	31,196	18,123
Total current liabilities	215,637	60,933
<b>NET POSITION</b>		
Net invested in capital assets	1,426,450	1,422,072
Restricted for System Development	493,399	458,667
Unrestricted	631,464	745,833
Total net position	\$ 2,551,313	\$ 2,626,571

See accompanying notes to financial statements

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -  
 PROPRIETARY FUNDS for the Years Ended June 30, 2016 and 2015

	2016	2015
<b>OPERATING REVENUES</b>		
Water service	\$ 1,185,774	\$ 1,053,373
Other service fees	13,941	14,164
Total operating revenues	1,199,715	1,067,537
<b>OPERATING EXPENSES</b>		
Maintenance and repairs	78,971	36,345
Water purchases	484,364	424,937
Professional services	80,515	43,838
General and administrative	490,212	249,582
Contract services	115,722	76,592
Depreciation	64,595	60,791
Total operating expenses	1,314,379	892,085
<b>OPERATING INCOME (LOSS)</b>	(114,664)	175,452
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	6,646	4,215
System development and review fees	32,759	18,482
Total nonoperating revenues (expenses)	39,405	22,697
Changes in net position	(75,259)	198,149
<b>NET POSITION - Beginning of year</b>	2,626,572	2,428,422
<b>NET POSITION - End of year</b>	\$ 2,551,313	\$ 2,626,571

See accompanying notes to financial statements.

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
for the Years Ended June 30, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,181,158	\$ 1,039,782
Cash paid to suppliers	(708,295)	(650,624)
Cash paid to employees	(373,740)	(167,389)
	99,123	221,769
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
System development and review fees	32,759	18,482
Acquisition and construction of capital assets	(68,272)	(113,397)
	(35,513)	(94,915)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned on investments	6,646	4,215
	6,646	4,215
Net increase (decrease) by cash and cash equivalents	70,256	131,069
Cash and cash equivalents - Beg. of year (restricted \$458,666, \$505,754)	1,106,004	974,935
Cash and cash equivalents - End of year (restricted \$493,399, \$458,666)	\$ 1,176,260	\$ 1,106,004
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (114,664)	\$ 175,452
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	64,595	60,791
Reconciliation of capital assets	(668)	0
(Increase) decrease in operating assets		
Accounts receivable	(4,616)	(25,344)
Prepays	(205)	(378)
Inventory	9	0
Increase (decrease) in operating liabilities		
Accounts payable	140,045	8,722
Accrued expenses	1,554	114
Customer deposits	13,073	2,412
	99,123	221,769
Net cash provided (used) by operating activities	\$ 99,123	\$ 221,769

See accompanying notes to financial statements.

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

**NOTES TO FINANCIAL STATEMENTS**  
as of June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Lake Grove Water District (District) prepares its financial statements in accordance with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

**Reporting Entity**

The Lake Grove Water District is a municipal corporation and therefore is exempt from federal taxes. It operates under the laws of the State of Oregon as a water district. There are five Directors elected for terms of four years.

There are various other governmental agencies and special service districts which provide services within the District's boundaries. However, the District is not financially accountable for any of these entities and accordingly their financial information is not included in these financial statements.

**Basis of Accounting**

Lake Grove Water District is considered to be a single enterprise similar to a commercial entity for financial reporting purposes. Accordingly, these financial statements are maintained on the flow of economic resources measurement focus using the accrual basis of accounting utilizing accounting principles applicable to commercial enterprises. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred.

**Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

The District's investment policies are governed by Oregon statutes. The statutes authorize the District to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, high-grade commercial paper and the State Treasurer's Local Government Investment Pool (LGIP). See Note 3.

**Accounts Receivable**

Uncollected water receivables are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible has been established.

**Inventory**

Inventories are valued at the lower of cost or market, using the first-in/first-out (FIFO) method.

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

**NOTES TO FINANCIAL STATEMENTS**  
as of June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Restricted Assets**

Restricted assets represents those funds set aside for system development. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Capital Assets**

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received. Capital assets are defined in the District's capitalization policy as having a historic cost or value in excess of \$500 and an estimated useful life greater than one year. 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. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

	<u>Years</u>
Plant and Sanitary System	50
Equipment	5 - 10

**Interfund Transactions**

Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed.

All other interfund transactions are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

**NOTES TO FINANCIAL STATEMENTS**  
as of June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Net Position**

Investment in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net assets consists of external constraints placed thereon by parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposing legal mandates. Unrestricted consists of all other net assets not included in the above categories.

**Operating Revenues, Non-Operating Revenues and Operating Expenses**

The District has defined operating revenues to include all service charges and other applicable charges for services directly attributable to providing water service. Operating expenses are those expenses directly related to providing the services reflected within operating revenues including depreciation and amortization.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. This includes investment interest, capital contributions, and gain (loss) on sale of capital assets.

**Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budget Law and Practice**

Pursuant to Oregon Local Budget Law, Oregon Revised Statutes Chapter 294.305 through 294.770, the District manages its operations through fund accounting. An operating budget is adopted prior to each fiscal year for all funds. The budget is adopted on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual (measurable and available to finance expenditures of the current period). Expenses are generally recognized when the related liability has been incurred. The exception is interest on general long-term debt, which is recognized when due.

The Board adopts the budget and by resolution makes appropriations by major functional categories for all funds for the next fiscal year. Appropriations lapse at the end of the fiscal year, June 30.

Major functional categories identify the legal level of budgetary control above which expenditures are not authorized. The major functional categories are personnel services, materials and services, capital outlay, debt service, interfund transfers, and operating contingency. The Board of Directors may select a lower level of appropriations than the budget committee in which case the legal level of appropriation is stated in the appropriation resolution. The expenditure budget for the year is adopted through the appropriation resolution and only the Board may adjust appropriations.



**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

**NOTES TO FINANCIAL STATEMENTS**  
as of June 30, 2016

**NOTE 3 - DEPOSITS AND INVESTMENTS**

Cash, cash equivalents and investments as of June 30, are classified in the accompanying Statement of Net Position as follows:

	<u>Balance</u>	<u>Unrestricted</u>	<u>Restricted</u>
June 30, 2016	\$ 1,176,259	\$ 682,860	\$ 493,399
June 30, 2015	\$ 1,106,004	\$ 647,338	\$ 458,666

Cash, cash equivalents and investments as of June 30 consist of the following:

	<u>2016</u>	<u>2015</u>
Cash on hand	\$ 200	\$ 200
Deposits financial institution	189,586	198,807
Investments - external pool	986,473	906,997
Total cash & investments	\$1,176,259	\$1,106,004

**Deposits**

At the end of the fiscal year, the District's total deposits with financial institutions have a bank value of \$233,817, all covered by FDIC. Deposits represent checking and money market.

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As required by Oregon Revised Statutes, deposits in excess of federal depository insurance were held at qualified depositories for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer. As a result the District has no exposure to custodial credit risk for deposits with financial institutions.

**Investments - External Pool**

As of June 30 the District held the following investment:

	<u>Fair Value</u>	<u>Weighted average maturity in days</u>	<u>% of investment portfolio</u>	<u>Credit Risk</u>
Local Government Investment Pool - 2016	\$986,473	1	100	Unrated
Local Government Investment Pool - 2015	906,997	1	100	Unrated

The "weighted average maturity in days" assumes that all investments are held to maturity.

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

**NOTES TO FINANCIAL STATEMENTS**  
as of June 30, 2016

**NOTE 3 - DEPOSITS AND INVESTMENTS - Continued**

**Investments**

The Oregon State Treasurer maintains the Oregon Short Term Fund (OSTF), of which the Local Government Investment Pool (LGIP) is a part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon statutes, funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. LGIP was created to offer a short-term investment alternative to Oregon local governments and it is not registered with the U.S. Securities and Exchange Commission. The investments are regulated by the OSTF and approved by the Oregon Investment Council. At the end of the fiscal year, the fair value of the District's deposits with the LGIP approximately equals the value of the pool shares. The OSTF financial statements are available at <http://ost.state.or.us>.

*Interest rate risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk*

Oregon Statutes limit investments to general obligations of U.S. government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, high-grade commercial paper and the State Treasurer's Local Government Investment Pool. The District has no investment policy that would further limit its investment choices.

*Concentration of credit risk*

Currently, the District's only investment is in the State of Oregon's Local Government Investment Pool. The District places no limit on the amount it may invest in any one issuer.

**NOTE 4 - RECEIVABLES**

Receivables at June 30 consist of the following:

	<u>2016</u>	<u>2015</u>
Accounts Receivable	<u>\$ 144,641</u>	<u>\$ 140,025</u>

Bad debts are written off as incurred, therefore, there is no allowance for uncollectible receivables.

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

NOTES TO FINANCIAL STATEMENTS  
as of June 30, 2016

**NOTE 5 - CAPITAL ASSETS**

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

	<u>7/01</u> <u>Balance</u>	<u>Adjustment &amp;</u> <u>Reallocation</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30</u> <u>Balance</u>
Capital assets not being depreciated					
Land	\$ 8,457	\$ 0	\$ 0	\$ 0	\$ 8,457
Work in progress	<u>6,773</u>	<u>0</u>	<u>0</u>	<u>6,773</u>	<u>0</u>
Total capital assets not being depreciated	<u>15,230</u>	<u>0</u>	<u>0</u>	<u>6,773</u>	<u>8,457</u>
Capital assets being depreciated					
Land improvements	19,640	30,618	72,585	0	122,843
Water system	2,819,959	(28,671)	0	0	2,791,288
Equipment	<u>19,418</u>	<u>(1,947)</u>	<u>3,246</u>	<u>0</u>	<u>20,717</u>
Total capital assets being depreciated	<u>2,859,017</u>	<u>0</u>	<u>75,831</u>	<u>0</u>	<u>2,934,848</u>
Accumulated depreciation					
Land improvements	15,245	10,784	5,244	0	31,273
Water system	1,427,210	(10,086)	55,826	0	1,472,950
Equipment	<u>9,720</u>	<u>(613)</u>	<u>3,525</u>	<u>0</u>	<u>12,632</u>
Total accum. depreciation	<u>1,452,175</u>	<u>85</u>	<u>64,595</u>	<u>0</u>	<u>1,516,855</u>
Total depreciable, net	<u>1,406,842</u>	<u>(85)</u>	<u>11,236</u>	<u>0</u>	<u>1,417,993</u>
Capital assets, net	<u>\$1,422,072</u>	<u>\$ (85)</u>	<u>\$ 11,236</u>	<u>\$ (6,773)</u>	<u>\$1,426,450</u>

Depreciation expense was \$64,595 for 2016 and \$60,791 for 2015.

**NOTE 6 - LEASE COMMITMENTS**

Office space is leased, which expires March 30, 2017. Rental expense for the current year was \$28,840 and \$28,171 for the prior year. Minimum future rental payments are as follows:

<u>Year End</u>	<u>Balance</u>
2017	<u>\$ 6,921</u>

**LAKE GROVE WATER DISTRICT  
Lake Oswego, Oregon**

**NOTES TO FINANCIAL STATEMENTS  
as of June 30, 2016**

**NOTE 7 - OTHER INFORMATION**

**Commitments and Contingencies**

An urban service agreement with the City of Lake Oswego (City) contains provisions for annexation of the District's service area. In the event of annexation, all assets, liabilities, and functions of the District will be assumed by the City and the District will terminate. Annexation is subject to the approval of the voters within the District and the City. As of the date of this report, annexation proceedings had not been initiated.

**Risk Management**

The District is exposed to various risks of loss related to theft of, damage to and destruction of assets; torts; errors and omissions; and natural disasters. The District purchases commercial insurance for such risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Management is not aware of any pending litigation involving the District.

**Evaluation of Subsequent Events**

Management has evaluated subsequent events through September 7, 2016, the date on which the financial statements were available to be issued.

**LAKE GROVE WATER DISTRICT**  
Lake Oswego, Oregon

**SUPPLEMENTAL SECTION**

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

**DESCRIPTION OF BUDGETARY FUNDS**

Pursuant to the provisions of Oregon Revised Statute, an individual schedule of revenues, expenditures, and changes in fund balances requires budget and actual be displayed for each fund where legally adopted budgets are required.

Budgetary comparison schedules include the following funds:

**General Fund**

The fund is used to account for the financial resources of the District that are not accounted for in any other fund. Principal source of revenue is from water sales. Primary expenditures are for water purchase, system maintenance and general administration.

**System Development Fund**

The fund is used to account for financial resources to be used for the acquisition or construction of water systems. The primary revenue source is system development charges.

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2016**

**GENERAL FUND**

	Original Budget	Final Budget	Actual	Variance from Final
<b>REVENUES</b>				
Water service	\$ 900,000	\$ 900,000	\$ 1,185,774	\$ 285,774
Other service fees	12,000	12,000	12,393	393
Interest	1,500	1,500	3,860	2,360
Miscellaneous	1,000	1,000	2,241	1,241
Total revenues	914,500	914,500	1,204,268	289,768
<b>EXPENDITURES</b>				
Personnel services	175,000	393,000	373,740	19,260
Materials and services	1,071,800	868,800	845,915	22,885
Contingency	60,000	45,000	0	45,000
Total expenditures	1,306,800	1,306,800	1,219,655	87,145
Excess (def) of revenues over expenditures	(392,300)	(392,300)	(15,387)	376,913
Unappropriated ending fund balance	(198,535)	(198,535)	0	198,535
FUND BALANCE - Beg. of year (Budget basis)	590,835	590,835	745,833	154,998
FUND BALANCE - End of year (Budget basis)	\$ 0	\$ 0	730,446	\$ 730,446
<b>GAAP ADJUSTMENTS</b>				
Accrued payable			(98,281)	
Capital acquisitions			68,272	
Depreciation			(64,595)	
Capital assets, net of depreciation			1,422,072	
FUND BALANCE - End of year (GAAP)			\$ 2,057,914	

**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL for the Year Ended June 30, 2016**

**SYSTEM DEVELOPMENT FUND**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>			
Interest income	\$ 2,000	\$ 2,786	\$ 786
SDC revenue	<u>30,000</u>	<u>32,066</u>	<u>2,066</u>
Total revenues	<u>32,000</u>	<u>34,852</u>	<u>2,852</u>
<b>EXPENDITURES</b>			
Materials and services	247,350	120	247,230
Contingency	<u>60,000</u>	<u>0</u>	<u>60,000</u>
Total expenditures	<u>307,350</u>	<u>120</u>	<u>307,230</u>
Excess (def) of revenues over expenditures	(275,350)	34,732	310,082
Unappropriated ending fund balance	(180,289)	0	180,289
FUND BALANCE - Beg.of year (Budget basis)	<u>455,639</u>	<u>458,667</u>	<u>3,028</u>
FUND BALANCE - End of year (Budget basis)	<u>\$ 0</u>	<u>\$ 493,399</u>	<u>\$ 493,399</u>



**LAKE GROVE WATER DISTRICT**  
**Lake Oswego, Oregon**

**RECONCILIATION OF REVENUES AND EXPENDITURES (BUDGETARY BASIS) TO THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION for the Year Ended June 30, 2016**

	Total Revenues	Total Expenditures	Net
<b>Budgetary Basis</b>			
General Fund	\$ 1,204,268	\$ 1,219,655	\$ (15,387)
System Development Fund	34,852	120	34,732
Total budgetary basis	<u>\$ 1,239,120</u>	<u>\$ 1,219,775</u>	19,345
<b>Add (Deduct) Items to Reconcile to Net Income on a Financial Reporting Basis</b>			
Accrued payable			(98,281)
Depreciation			(64,595)
Capital assets			68,272
Change in net assets			(75,259)
NET POSITION - Beginning of year			2,626,572
NET POSITION - End of year			<u>\$ 2,551,313</u>

**LAKE GROVE WATER DISTRICT**  
Lake Oswego, Oregon

**COMPLIANCE SECTION**

**GRIMSTAD & ASSOCIATES**  
Certified Public Accountants

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Fax (541) 265-9255  
info@grimstad-assoc.com

Lincoln City Office:  
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Lincoln City, OR 97367  
(541) 994-5252  
Fax (541) 994-2105

September 7, 2016

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

Board of Commissioners  
Lake Grove Water District  
Lake Oswego, Oregon

I have audited the basic financial statements of the business-type activities of Lake Grove Water District (District) as of and for the years ended June 30, 2016 and 2015, and have issued my report thereon dated September 7, 2016. I conducted my 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 financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-330 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 an objective of my audit and, accordingly, I do not express such an opinion.

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

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

In connection with my testing nothing came to my attention that caused me 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 Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

Members:  
AICPA OSCPA & OAIA

## Internal Control Over Financial Reporting

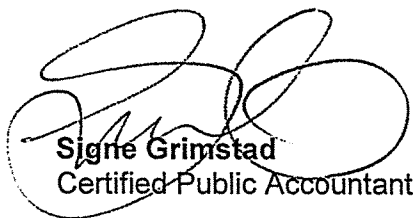
In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### Purpose of this Report

This report is intended solely for the information and use of the management, the audit committee, Oregon Secretary of State Audits Division, and Board of Commissioners and is not intended to be and should not be used by anyone other than those specified parties.



**Signe Grimstad**  
Certified Public Accountant