

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

AUDIT REPORT

for the Fiscal Years

JUNE 30, 2017 and 2016

Prepared By
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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

District Manager

Tammy Schalk

Attorney

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

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

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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, 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

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.

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, 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, 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.

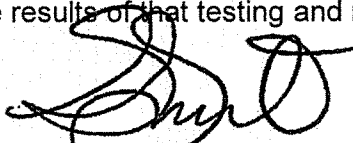
Other Information

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 to net position 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 to net position 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 to net position 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 13, 2017 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
Newport, Oregon
September 13, 2017

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 2016-17, ending June 30, 2017, providing an overview and analysis of the highlights of these statements.

Financial Highlights

- ❖ Total assets of the District was \$2,895,609. This includes capital assets of \$1,419,966 (net of accumulated depreciation), and current assets of \$1,475,643 at June 30, 2017.
- ❖ The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,783,052 (net position). Of this amount, \$898,401 (unrestricted net position) may be used to meet the District's ongoing obligations. Restricted \$464,685 is for system development.
- ❖ Total liabilities were \$112,557, down \$103,080 from June 30, 2016.
- ❖ The District's net position increased by \$231,739 from June 30, 2016.
- ❖ Total operating profit for the fiscal year 2016-2017 was \$201,452, compared to a loss of \$114,664 the prior fiscal year.
- ❖ Total operating expenses for the fiscal year 2016-2017 were \$1,081,898, down 18% from the prior fiscal 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 \$2,783,052 at the close of the most recent fiscal year, an increase of \$231,739 from the prior fiscal year.

The largest portion of the District's net position (51.02%) 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 (16.70%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (32.28%) may be used to meet the District's ongoing obligations to ratepayers and creditors.

Statement of Net Position

	2017	2016	Difference	% Change
Current assets	\$ 1,475,643	\$ 1,340,500	\$ 135,143	10.1%
Capital assets	1,419,966	1,426,450	(6,484)	0.04%
Total assets	2,895,609	2,766,950	128,659	4.6%
Current liabilities	112,557	215,637	103,080	47.8%
Net invested in capital assets	1,419,966	1,426,450	(6,484)	-0.5%
Restricted	464,685	493,399	(28,714)	-5.8%
Unrestricted	898,401	631,464	266,937	42.3%
Total net position	\$ 2,783,052	\$ 2,551,313	231,738	9.1%

Statement of Revenues, Expenses and Changes in Net Position

	2017	2016	2017-16 Difference	% Change
Operating Revenues				
Water service	\$ 1,274,612	\$ 1,185,774	\$ 88,838	7.5%
Other services	8,738	13,941	(5,203)	-37.3%
Total Operating Revenues	1,283,350	1,199,715	83,635	7.0%
Operating Expenses				
Personnel services	216,327	373,740	(157,413)	-42.1%
Materials and services	796,478	876,044	(79,566)	-9.1%
Depreciation	69,093	64,595	4,498	7.0%
Total operating expenses	1,081,898	1,314,379	(232,481)	-17.7%
Operating Income (Loss)	201,452	(114,664)	316,116	-275.7%
Nonoperating Revenues (Expenses)				
Interest income	11,267	6,646	4,621	69.5%
System Development fees and review fees	19,020	32,759	(13,739)	-41.9%
Total nonoperating revenues (expenses)	30,287	39,405	(9,118)	-23.1%
Changes in Net Position	231,739	(75,259)	306,998	-407.9%
Net Position - Beginning of year	2,551,313	2,626,571	(75,258)	-2.9%
Net Position - End of year	\$ 2,783,052	\$ 2,551,313	\$ 231,739	9.1%

2017 Operating Profit

The District's operating profit stands in sharp contrast to the prior year's operating loss; a difference of \$316,116. This difference is attributed to a one-time unanticipated expense occurring last fiscal year, increased revenue water rates, and lower payroll expense.

Fiscal year 2016 included expenses related to an employee issue that was concluded within that year. As reported in the 2016 Management Discussion and Analysis, an employee filed a case with Oregon's Bureau of Labor and Industries alleging violation of employment laws. The Bureau did not find the filed complaint to be substantive and took no action. However, the District incurred related expenses for resolving the issue which are estimated to be about half of the 2016 to 2017 operating income difference.

The District implemented increases in water rates in the middle of last fiscal year, with the first full-year effects reported here for 2017. Offsetting the positive effect of higher rates was reduced water sales; by volume down approximately 6 percent. This was likely the result of conservation by District customers in response to higher water prices. However, predominately due to higher rates, water service revenue increased over 12 percent from the prior year. This higher revenue was offset by an approximate 14 percent increase in water cost to the District, even though the volume of water purchased decreased by about 6 percent. The net result was that

water service revenue exceeded the cost of purchased water by \$839,193 this year versus \$701,410 last year, overall accounting for about 44% of the difference between this year's operating profit and last year's loss.

In addition to the above, a lesser amount of the operating income difference can be attributed to reduced payroll expense. Personnel services expense in fiscal 2016 was higher due to the situation described earlier, but this expense for 2017 compares favorably to many prior fiscal years. The personnel services expense this year (\$216,327) was well below that of fiscal years 2015 (\$249,582), 2014 (\$271,381), and 2013 (\$244,294). The District invested in a specialized software application for customer billing. This application interfaces more directly with the data provided by wireless meter reading software and provides efficiencies to the most time-consuming functions performed by the District's employees. It should be noted that this low level of expense is in part artificial in that the District operated for a portion of the year without a person in the position of District Manager. This has changed as an existing employee has been promoted to that position and its associated pay range.

Non-operating and interest income was \$19,020 and \$11,267, respectively for 2017.

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.

Capital Asset

The District's investment in capital assets as of June 30, 2017, 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 net investment in capital assets decreased slightly during the current fiscal year by \$6,484.

Debt

The District has no outstanding debt.

District Governance and Board Resolutions

The District is governed by a board consisting of five elected Commissioners.

The Board adopted three resolutions during the fiscal year.

- Resolution 2017-01 adopted, to take effect January 1, 2017, an amendment to the District's Personnel Policies and Procedures to incorporate whistleblower protections.
- Resolution 2017-02 adopted on April 17, 2017 to appoint Budget Committee members.
- Resolution 2017-04 adopted on June 19, 2017 a total budget of \$2,971,533 for fiscal year 2018. The budget can be viewed on the District's website at www.LakeGroveWater.com under the tab labeled Reports/FAQ.

Subsequent to year end, the Board adopted Resolution 2017-03 on July 17, 2017, to amend system development charges effective August 16, 2017.

Operations

Administrative

During the year the District relocated its office. The lease on the former office space expired during the year. The decision to move was reported in last year's Management Discussion and Analysis. The lease on the new/current space will expire during the fiscal year ending June 2020. The District has also converted its billing procedures to use industry specific invoicing software. The time savings provided has helped reduce labor costs.

Meter Upgrades

Over the last several years the District has been upgrading customer meters by replacing them with new versions capable of being read automatically via wireless transmission. This not only saves manual effort and cost but provides more accurate billing information with speed. The District, at year's end, had approximately 84 percent of the meters converted.

Water Loss

The District's water loss for fiscal 2017 is estimated to be between 9.0 and 9.5 percent. This is consistent with estimates of prior years. Data provided by the SCADA (supervisor control and data acquisition) system that was brought online last fiscal year and the inclusion of known water losses in calculations will allow the District to calculate this metric more accurately in future years.

Economic Factors

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 subdivided lots. This trend is resulting in a slow rise in density within the District.

The District has approximately 1,370 customer accounts, about 1,260 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, most 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 most 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 2017-18 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.

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, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,303,949	\$ 1,176,260
Accounts receivable	153,817	144,641
Prepaid expenses and deposits	10,345	9,488
Inventory	7,532	10,111
Total current assets	1,475,643	1,340,500
Noncurrent assets		
Land	8,457	8,457
Capital assets, net of depreciation	1,411,509	1,417,993
Total noncurrent assets	1,419,966	1,426,450
Total assets	2,895,609	2,766,950
LIABILITIES		
Current liabilities		
Accounts payable	71,054	179,237
Payroll liabilities	5,793	0
Accrued compensated absences	7,276	5,204
Deposits	28,434	31,196
Total current liabilities	112,557	215,637
NET POSITION		
Net invested in capital assets	1,419,966	1,426,450
Restricted for System Development	464,685	493,399
Unrestricted	898,401	631,464
Total net position	\$ 2,783,052	\$ 2,551,313

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, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Water service	\$ 1,274,612	\$ 1,185,774
Other service fees	8,738	13,941
Total operating revenues	1,283,350	1,199,715
OPERATING EXPENSES		
Maintenance and repairs	78,737	78,971
Water purchases	435,419	484,364
Professional services	58,550	80,515
General and administrative	323,154	490,212
Contract services	116,945	115,722
Depreciation	69,093	64,595
Total operating expenses	1,081,898	1,314,379
OPERATING INCOME (LOSS)	201,452	(114,664)
NONOPERATING REVENUES (EXPENSES)		
Interest income	11,267	6,646
System development and review fees	19,020	32,759
Total nonoperating revenues (expenses)	30,287	39,405
Changes in net position	231,739	(75,259)
NET POSITION - Beginning of year	2,551,313	2,626,572
NET POSITION - End of year	\$ 2,783,052	\$ 2,551,313

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,274,174	\$ 1,181,158
Cash paid to suppliers	(905,701)	(708,295)
Cash paid to employees	(208,462)	(373,740)
Net cash provided (used) by operating activities	160,011	99,123
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
System development and review fees	19,020	32,759
Acquisition and construction of capital assets	(62,609)	(68,272)
Net cash provided (used) by financing activities	(43,589)	(35,513)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	11,267	6,646
Net cash provided (used) by investing activities	11,267	6,646
Net increase (decrease) by cash and cash equivalents	127,689	70,256
Cash and cash equivalents - Beg. of year (restricted \$493,399, \$458,666)	1,176,260	1,106,004
Cash and cash equivalents - End of year (restricted \$464,685, \$493,399)	\$ 1,303,949	\$ 1,176,260
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 201,452	\$ (114,664)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	69,093	64,595
Reconciliation of capital assets	0	(668)
(Increase) decrease in operating assets		
Accounts receivable	(9,176)	(4,616)
Prepays	(857)	(205)
Inventory	2,579	9
Increase (decrease) in operating liabilities		
Accounts payable	(108,183)	140,045
Accrued expenses	7,865	1,554
Customer deposits	(2,762)	13,073
Net cash provided (used) by operating activities	\$ 160,011	\$ 99,123

See accompanying notes to financial statements

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

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 Commissioners 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 and Presentation

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.

Governmental financial statements generally include both government-wide and fund financial statements. However, the District is a special-purpose government engaged only in business-type activities and such organizations present only the financial statements required for enterprise funds.

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is a separate accounting entity with a self balancing set of accounts. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements of this report into one proprietary fund.

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.

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory

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

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	3 - 15

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, 2017

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, 2017

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, 2017	\$ 1,303,949	\$ 839,264	\$ 464,685
June 30, 2016	\$ 1,176,260	\$ 682,861	\$ 493,399

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

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 200	\$ 200
Deposits financial institution	246,274	139,586
Investments - external pool	1,057,475	986,473
Total cash & investments	\$1,303,949	\$1,176,259

Deposits

At the end of the fiscal year, the District's total deposits with financial institutions have a bank value of \$291,369. 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>
Local Government Investment Pool - 2017	\$1,057,475
Local Government Investment Pool - 2016	986,473

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

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>2017</u>	<u>2016</u>
Accounts Receivable	<u>\$ 153,817</u>	<u>\$ 144,641</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, 2017

NOTE 5 - CAPITAL ASSETS

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

	<u>7/01</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30</u> <u>Balance</u>
Capital assets not being depreciated				
Land	\$ 8,457	\$ 0	\$ 0	\$ 8,457
Capital assets being depreciated				
Land improvements	122,843	0	0	122,843
Water system	2,791,288	52,392	0	2,843,680
Equipment	<u>20,717</u>	<u>10,217</u>	<u>0</u>	<u>30,934</u>
Total capital assets being depreciated	<u>2,934,848</u>	<u>62,609</u>	<u>0</u>	<u>2,997,457</u>
Accumulated depreciation				
Land improvements	31,273	8,043	0	39,316
Water system	1,472,950	56,525	0	1,529,475
Equipment	<u>12,632</u>	<u>4,525</u>	<u>0</u>	<u>17,157</u>
Total accum. depreciation	<u>1,516,855</u>	<u>69,093</u>	<u>0</u>	<u>1,585,948</u>
Total depreciable, net	<u>1,417,993</u>	<u>(6,484)</u>	<u>0</u>	<u>1,411,509</u>
Capital assets, net	<u>\$1,426,450</u>	<u>\$ (6,484)</u>	<u>\$ 0</u>	<u>\$1,419,966</u>

Depreciation expense was \$69,093 for 2017 and \$64,595 for 2016.

NOTE 6 - LEASE COMMITMENTS

During the fiscal year the District entered into a new lease agreement for office space. Rental expense was \$36,771 and \$28,840 for the fiscal years 2017 and 2016 respectively. Minimum future rental payments are as follows:

<u>Year End</u>	<u>Balance</u>
2018	\$ 31,153
2019	32,087
2020	33,050
2021	<u>2,802</u>
Total	<u>\$ 99,092</u>

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2017

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 13, 2017, 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, 2017

GENERAL FUND

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Water service	\$ 1,400,000	\$ 1,400,000	\$ 1,274,612	\$ (125,388)
Other service fees	11,000	11,000	8,720	(2,280)
Interest	3,500	3,500	6,489	2,989
Miscellaneous	1,000	1,000	18	(982)
Total revenues	1,415,500	1,415,500	1,289,839	(125,661)
EXPENDITURES				
Personnel services	244,000	310,000	216,327	93,673
Materials and services	1,252,550	1,186,550	806,575	379,975
Contingency	100,000	100,000	0	100,000
Total expenditures	1,596,550	1,596,550	1,022,902	573,648
Excess (def) of revenues over expenditures	(181,050)	(181,050)	266,937	447,987
FUND BALANCE - Beg. of year (Budget basis)	181,050	181,050	730,446	549,396
FUND BALANCE - End of year (Budget basis)	\$ 0	\$ 0	997,383	\$ 997,383
GAAP ADJUSTMENTS - Reconciled to June 30, 2016			1,327,468	
Capital asset activity				
Capital acquisitions			62,609	
Depreciation			(69,093)	
FUND BALANCE - End of year (GAAP)			\$ 2,318,367	

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, 2017

SYSTEM DEVELOPMENT FUND

	Original and Final Budget	Actual	Variance
REVENUES			
Interest income	\$ 2,500	\$ 4,778	\$ 2,278
SDC revenue	30,000	19,020	(10,980)
Total revenues	32,500	23,798	(8,702)
EXPENDITURES			
Materials and services	280,150	52,512	227,638
Contingency	60,000	0	60,000
Total expenditures	340,150	52,512	287,638
Excess (def) of revenues over expenditures	(307,650)	(28,714)	278,936
FUND BALANCE - Beg. of year (Budget basis)	307,650	493,399	185,749
FUND BALANCE - End of year (Budget basis)	\$ 0	\$ 464,685	\$ 464,685

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, 2017

	Total Revenues	Total Expenditures	Net
Budgetary Basis			
General Fund	\$ 1,289,839	\$ 1,022,902	\$ 266,937
System Development Fund	23,798	52,512	(28,714)
Total budgetary basis	\$ 1,313,637	\$ 1,075,414	238,223
Add (Deduct) Items to Reconcile to Net Income on a Financial Reporting Basis			
Capital asset activity			
Capital acquisitions			62,609
Depreciation			(69,093)
Change in net position			231,739
NET POSITION - Beginning of year			2,551,313
NET POSITION - End of year			\$ 2,783,052

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

COMPLIANCE SECTION

GRIMSTAD & ASSOCIATES

Certified Public Accountants

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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, 2017 and 2016, and the related notes to the financial statements, and have issued my report thereon dated September 13, 2017. 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.

Internal Control Over Financial Reporting

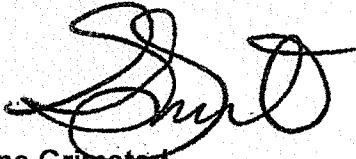
In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. 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
Newport, Oregon
September 13, 2017