

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

AUDIT REPORT

for the Fiscal Year

JUNE 30, 2019

Prepared By
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Certified Public Accountant
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PO Box 1930
Newport, Oregon 97365

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

COMMISSIONERS

Chairperson	JD Pavek 16737 Roosevelt Lake Oswego, OR 97035
Secretary/Treasurer	Dan Lowe
Commissioner	Dan Taylor 16666 Roosevelt Ave. Lake Oswego, OR 97035
Commissioner	Larry Kitchen 16173 Bonaire Lake Oswego, OR 97035
Commissioner	Virgil Pearce 4951 SW Oakridge Lake Oswego, OR 97035

ADMINISTRATORS AND ATTORNEY

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

TABLE OF CONTENTS

INTRODUCTORY SECTION

Title Page
List of Commissioners
Table of Contents

FINANCIAL SECTION

Page

Independent Auditor's Report.	1-2
Management's Discussion and Analysis.	3-7
Basic Financial Statements	
Statement of Net Position - Proprietary Funds	8
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	9
Statement of Cash Flows - Proprietary Funds	10
Notes to Financial Statements	11-17

SUPPLEMENTAL SECTION

Description of Budgetary Funds	18
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	
General Fund	19
System Development Fund	20
Reconciliation of Revenues and Expenditures (Budgetary Basis) to the Statement of Revenues, Expenses and Changes in Net Position	21

COMPLIANCE SECTION

Independent Auditor's Report Required by Oregon State Regulations.	22-23
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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 year ended June 30, 2019, 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, 2019, and the respective changes in financial position and cash flows thereof for the year 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.

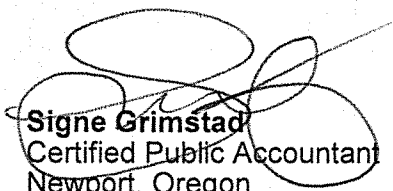
Other Information

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 November 8, 2019 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
November 8, 2019

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 2018-19, ending June 30, 2019, providing an overview and analysis of the highlights of these statements.

Financial Highlights

- ❖ Total assets of the District was \$3,189,350. This includes capital assets of \$1,591,134 (net of accumulated depreciation), and current assets of \$1,598,216 at June 30, 2019.
- ❖ The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,097,571 (net position). Of this amount, \$1,273,665 (unrestricted net position) may be used to meet the District's ongoing obligations. Restricted \$232,772 is for system development.
- ❖ Total liabilities were \$91,779, down \$40,209 from June 30, 2018.
- ❖ The District's net position increased by \$86,262 from June 30, 2018.
- ❖ Total operating profit for the fiscal year 2018-2019 was \$86,262, compared to a profit of \$228,257 the prior fiscal year.
- ❖ Total operating expenses for the fiscal year 2018-2019 were \$1,221,384, up 11% 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 \$3,097,571 at the close of the most recent fiscal year, an increase of \$86,262 from the prior fiscal year.

The largest portion of the District's net position (51.4%) 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 (7.51%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (41.1%) may be used to meet the District's ongoing obligations to ratepayers and creditors.

Statement of Net Position

	<u>2019</u>	<u>2018</u>	<u>Difference</u>
Current assets	\$ 1,598,216	\$ 1,783,822	\$ (185,606)
Capital assets	<u>1,591,134</u>	<u>1,359,475</u>	<u>231,659</u>
Total assets	<u>3,189,350</u>	<u>3,143,297</u>	<u>46,053</u>
Current liabilities	<u>91,779</u>	<u>131,988</u>	<u>(40,209)</u>
Net invested in capital assets	1,591,134	1,359,475	231,659
Restricted	232,772	505,858	(273,086)
Unrestricted	<u>1,273,665</u>	<u>1,145,976</u>	<u>127,689</u>
Total net position	<u>\$ 3,097,571</u>	<u>\$ 3,011,309</u>	<u>\$ 86,262</u>

Statement of Revenues, Expenses and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Difference</u>
Operating Revenues			
Water sales	\$ 1,243,400	\$ 1,256,085	\$ (12,685)
Other services	7,320	8,020	(700)
Total operating revenues	1,250,720	1,264,105	(13,385)
Operating Expenses			
Personnel services	194,986	191,490	3,496
Materials and services	957,822	840,019	117,803
Depreciation	68,576	68,389	187
Total operating expenses	1,221,384	1,099,898	121,486
Operating Income (Loss)	29,336	164,207	(134,871)
Nonoperating Revenues (Expenses)			
Interest income	31,683	19,926	11,757
System Dev. fees & review fees	25,243	44,124	(18,881)
Total nonoperating revenues (expenses)	56,926	64,050	(7,124)
Changes in Net Position	86,262	228,257	(141,995)
Net Position – Beg. of year	3,011,309	2,783,052	228,257
Net Position – End of year	\$ 3,097,571	\$ 3,011,309	\$ 86,262

2019 Operating Profit

The District's operating profit for the current year is down by \$141,995 from the previous year.

The District implemented increases in water rates in the middle of fiscal year 2016-17, with the first full-year effects reported here for June of 2018. The difference in operating revenue was pretty insignificant this year. However, revenue was offset by an increase in water costs totaling \$593,809 this year compared to the prior year of \$489,964 or a 21% increase in costs. This was brought about when the City of Portland interrupted water service pursuant to the Regional Water Sales Agreement. Personnel expense of \$194,986 was comparable to \$191,490 in the previous year.

Non-operating and interest income was \$25,243 compared to \$19,926, of the previous year.

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, 2019, amounts to over \$1.59 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 increased during the current fiscal year by \$231,659.

Debt

The District has no outstanding debt.

District Governance and Board Resolutions

The Board adopted four resolutions and one ordinance during the fiscal year.

- Ordinance 2019-01 An ordinance amending and restating system development charges. To take effect February 21, 2019.
- Resolution 2019-02 A resolution amending the fiscal year 2018-2019 budget to make fund transfers and appropriations. To take effect June 17, 2019.
- Resolution 2019-03 A resolution adopting the budget for the fiscal year 2019-2020. To take effect June 17, 2019.
- Resolution 2019-04 A resolution authorizing a line of successors to act on behalf of the District in the event of a state of emergency.

Operations

Meter Upgrades

Over the last few 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 98 percent of the meters converted.

Water Loss

The District's water loss for fiscal 2018-2019 is estimated to be between 9.0 and 10.0 percent. This is consistent with estimates of prior years. Data provided by the SCADA (supervisor control and data acquisition) system that was brought online a few years ago and the inclusion of known water loses 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 have 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 2019-2020 resulting in new customers for the District. The City of Lake Oswego has started the Lower Boones Ferry Road Project, and 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 1173, Lake Oswego, Oregon 97035.

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
as of June 30, 2019

ASSETS

Current assets

Cash and cash equivalents	\$ 1,450,692
Accounts receivable	107,130
Prepaid expenses and deposits	9,945
Inventory	<u>30,449</u>

Total current assets 1,598,216

Noncurrent assets

Land	8,457
Work in progress	300,236
Capital assets, net of depreciation	<u>1,282,441</u>

Total noncurrent assets 1,591,134

Total assets 3,189,350

LIABILITIES

Current liabilities

Accounts payable	79,646
Accrued compensated absences	5,698
Deposits	<u>6,435</u>

Total current liabilities 91,779

NET POSITION

Net invested in capital assets	1,591,134
Restricted for System Development	232,772
Unrestricted	<u>1,273,665</u>

Total net position \$ 3,097,571

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 Year Ended June 30, 2019

OPERATING REVENUES	
Water service	\$ 1,243,400
Other service fees	<u>7,320</u>
Total operating revenues	<u>1,250,720</u>
OPERATING EXPENSES	
Maintenance and repairs	27,872
Water purchases	593,809
Professional services	72,941
General and administrative	351,594
Contract services	106,592
Depreciation	<u>68,576</u>
Total operating expenses	<u>1,221,384</u>
OPERATING INCOME (LOSS)	<u>29,336</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	31,683
System development and review fees	<u>25,243</u>
Total nonoperating revenues (expenses)	<u>56,926</u>
Changes in net position	86,262
NET POSITION - Beginning of year	<u>3,011,309</u>
NET POSITION - End of year	<u>\$ 3,097,571</u>

See accompanying notes to financial statements

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,249,680
Cash paid to suppliers	(1,008,315)
Cash paid to employees	<u>(183,547)</u>
Net cash provided (used) by operating activities	<u>57,818</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

System development and review fees	25,243
Acquisition and construction of capital assets	<u>(300,236)</u>
Net cash provided (used) by financing activities	<u>(274,993)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest earned on investments	<u>31,683</u>
Net increase (decrease) by cash and cash equivalents	(185,492)
Cash and cash equivalents - Beg. of year (restricted \$505,858)	<u>1,636,184</u>
Cash and cash equivalents - End of year (restricted \$232,772)	<u><u>\$ 1,450,692</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$ 29,336
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	68,576
(Increase) decrease in operating assets	
Accounts receivable	(1,633)
Prepays	1,747
Increase (decrease) in operating liabilities	
Accounts payable	(27,242)
Accrued expenses	(4,699)
Customer deposits	<u>(8,267)</u>
Net cash provided (used) by operating activities	<u><u>\$ 57,818</u></u>

See accompanying notes to financial statements

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2019

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.

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interfund Transactions

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."

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.

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2019

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Budget Law and Practice

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.

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, 2019	<u>\$ 1,450,692</u>	<u>\$ 1,217,920</u>	<u>\$ 232,772</u>

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

	<u>Balance</u>
Cash on hand	\$ 220
Deposits financial institution	491,868
Investments - external pool	958,604
Total cash & investments	<u>\$1,450,692</u>

Deposits

At the end of the fiscal year, the District's total deposits with financial institutions have a bank value of \$533,496. 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	<u>\$ 958,604</u>

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2019

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:

Accounts Receivable	<u>\$ 107,130</u>
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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, 2019

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019:

	<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
Work in progress	<u>0</u>	<u>300,236</u>	<u>0</u>	<u>300,236</u>
Total capital assets not being depreciated	<u>8,457</u>	<u>300,236</u>	<u>0</u>	<u>308,693</u>
Capital assets being depreciated				
Land improvements	122,843	0	0	122,843
Water system	2,843,680	0	0	2,843,680
Equipment	<u>38,833</u>	<u>0</u>	<u>0</u>	<u>38,833</u>
Total capital assets being depreciated	<u>3,005,356</u>	<u>0</u>	<u>0</u>	<u>3,005,356</u>
Accumulated depreciation				
Land improvements	46,411	7,095	0	53,506
Water system	1,586,272	56,873	0	1,643,145
Equipment	<u>21,654</u>	<u>4,609</u>	<u>0</u>	<u>26,263</u>
Total accum. depreciation	<u>1,654,336</u>	<u>68,576</u>	<u>0</u>	<u>1,722,914</u>
Total depreciable, net	<u>1,351,019</u>	<u>(68,576)</u>	<u>0</u>	<u>1,282,442</u>
Capital assets, net	<u>\$1,359,475</u>	<u>\$ 231,659</u>	<u>\$ 0</u>	<u>\$1,591,134</u>

Depreciation expense for year end was \$68,576.

NOTE 6 - LEASE COMMITMENTS

The District has a lease agreement for office space. Rental expense was \$32,166. Minimum future rental payments are as follows:

<u>Year End</u>	<u>Balance</u>
2020	\$ 33,050
2021	<u>2,802</u>
Total	<u>\$ 35,852</u>

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO FINANCIAL STATEMENTS
as of June 30, 2019

NOTE 7 - OTHER INFORMATION

Commitments and Contingencies

In March of 2019 the District entered into an Intergovernmental Agreement with the City of Lake Oswego regarding the roadway improvements on Boones Ferry Road. The District owns an 8 inch waterline located within the City's Boones Ferry Road that it desires to extend. As the City is making improvements to this road, the two municipalities entered into an agreement. The City will perform the work and the District will reimburse the actual costs relating to the construction of the waterline. As of June 30, 2019 the District has paid out \$300,231.

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 would be assumed by the City and the District would 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 November 8, 2019, 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, 2019

GENERAL FUND

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Water service	\$ 1,400,000	\$ 1,400,000	\$ 1,243,400	\$ (156,600)
Other service fees	15,100	15,100	7,320	(7,780)
Interest	4,000	4,000	20,427	16,427
Total revenues	1,419,100	1,419,100	1,271,147	(147,953)
EXPENDITURES				
Personnel services	216,000	216,000	194,986	21,014
Materials and services	1,100,700	1,100,700	948,473	152,227
Contingency	100,000	67,000	0	67,000
Total expenditures	1,416,700	1,383,700	1,143,459	240,241
Excess (def) of revenues over expenditures	2,400	35,400	127,688	92,288
OTHER FINANCING SOURCES (USES)				
Transfers out	0	33,000	0	33,000
Excess (def) of revenues over expenditures and transfers	2,400	2,400	127,688	125,288
Unappropriated ending fund balance	(1,310,918)	(1,310,918)	0	1,310,918
FUND BALANCE - Beg. of year (Budget basis)	1,308,518	1,308,518	1,244,957	(63,561)
FUND BALANCE - End of year (Budget basis)	\$ 0	\$ 0	1,372,645	\$ 1,372,645
GAAP ADJUSTMENTS - Reconciled to June 30, 2018			1,260,493	
Capital asset activity				
Capital acquisitions			300,236	
Depreciation			(68,576)	
FUND BALANCE - End of year (GAAP)			\$ 2,864,798	

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, 2019

SYSTEM DEVELOPMENT FUND

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Interest income	\$ 8,000	\$ 8,000	\$ 11,256	\$ 3,256
SDC revenue	45,000	45,000	25,243	(19,757)
Total revenues	53,000	53,000	36,499	(16,501)
EXPENDITURES				
Materials and services	230,100	230,100	9,349	220,751
Capital outlay	227,200	320,200	300,236	19,964
Contingency	60,000	0	0	0
Total expenditures	517,300	550,300	309,585	240,715
Excess (def) of revenues over expenditures	(464,300)	(497,300)	(273,086)	224,214
OTHER FINANCING SOURCES (USES)				
Transfers in	0	33,000	0	(33,000)
Excess (def) of revenues over expenditures and transfers	(464,300)	(464,300)	(273,086)	191,214
Unappropriated ending fund balance	(41,665)	(41,665)	0	41,665
FUND BALANCE - Beg. of year (Budget basis)	505,965	505,965	505,858	(107)
FUND BALANCE - End of year (Budget basis)	\$ 0	\$ 0	\$ 232,772	\$ 232,772

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, 2019

	Total Revenues	Total Expenditures	Net
Budgetary Basis			
General Fund	\$ 1,271,147	\$ 1,143,459	\$ 127,688
System Development Fund	36,499	309,585	(273,086)
Total budgetary basis	\$ 1,307,646	\$ 1,453,044	(145,398)
Add (Deduct) Items to Reconcile to Net Income on a Financial Reporting Basis			
Capital asset activity			
Capital acquisitions			300,238
Depreciation			(68,576)
Change in net position			86,262
NET POSITION - Beginning of year			3,011,309
NET POSITION - End of year			\$ 3,097,571

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

COMPLIANCE SECTION

GRIMSTAD & ASSOCIATES

Certified Public Accountants

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Newport, OR 97365
(541) 265-5411
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

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 year ended June 30, 2019, and the related notes to the financial statements, and have issued my report thereon dated November 8, 2019. 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 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not 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

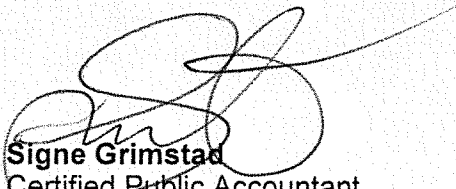
In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. 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
November 8, 2019