

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

AUDIT REPORT
for the Fiscal Year
JUNE 30, 2022

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

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

COMMISSIONERS

Chairperson	Dan Lowe Lake Oswego, OR 97035 Resigned 11/17/2022
Secretary/Treasurer	Virgil Pearce 4951 SW Oakridge Lake Oswego, OR 97035
Commissioner	Larry Kitchen 16173 Bonaire Lake Oswego, OR 97035
Commissioner	JD Pavek 16737 Roosevelt Ave. Lake Oswego, OR 97035
Commissioner	Dan Taylor 16666 Roosevelt Ave. 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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GRIMSTAD & ASSOCIATE

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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Board of Commissioners
Lake Grove Water District
Lake Oswego, Oregon

Opinion

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, 2022, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

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, 2022, 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.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Lake Grove Water District, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lake Grove Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lake Grove Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lake Grove Water District's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Required Supplementary Information

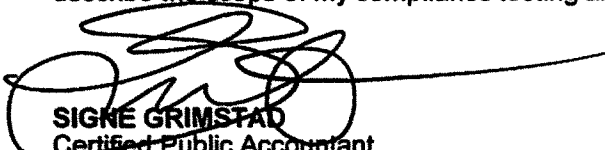
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards 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 management's discussion and analysis 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 information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund and System Development Fund 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. The 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 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund and System Development Fund 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 16, 2022 on my consideration of 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 compliance testing and not to provide an opinion on compliance.



SIGNE GRIMSTAD
Certified Public Accountant
Newport, Oregon
November 16, 2022

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 2021-22, ending June 30, 2022, providing an overview and analysis of the highlights of these statements.

Financial Highlights

- ❖ Total assets of the District were \$3,828,408. This includes capital assets of \$1,399,700 (net of accumulated depreciation), and current assets of \$2,265,033 at June 30, 2022.
- ❖ The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,514,865 (net position). Of this amount, \$1,684,151 (unrestricted net position) may be used to meet the District's ongoing obligations. Restricted \$431,014 is for system development.
- ❖ Total liabilities were \$313,543, up \$199,143 from June 30, 2021.
- ❖ The District's net position increased by \$301,041 from June 30, 2021.
- ❖ Total operating profit for the fiscal year 2021-22 was \$109,117, compared to \$61,580 of the prior fiscal year.
- ❖ Total operating expenses for the fiscal year 2021-22 were \$1,111,007, a decrease 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 \$3,514,865 at the close of the most recent fiscal year, and an increase of \$301,041 from the prior fiscal year.

The largest portion of the District's net position (39.8%) 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 (12.26%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (47.9%) may be used to meet the District's ongoing obligations to ratepayers and creditors.

Statement of Net Position

Assets	2022	2021	Variance
Current assets	\$ 2,265,033	\$ 1,870,007	\$ 395,026
Capital assets, net	1,399,700	1,458,217	(58,517)
Office leases assets, net	<u>163,675</u>	<u>0</u>	<u>163,675</u>
Total assets	<u>3,828,408</u>	<u>3,328,224</u>	<u>500,184</u>
Current liabilities	149,868	114,400	35,468
Office lease, net	<u>163,675</u>	<u>0</u>	<u>163,675</u>
Total liabilities	<u>313,543</u>	<u>114,400</u>	<u>199,143</u>
Net invested in capital assets	1,399,700	1,458,217	(58,517)
Restricted	431,014	251,022	179,992
Unrestricted	<u>1,684,151</u>	<u>1,504,585</u>	<u>188,023</u>
Total net position	<u>\$ 3,514,865</u>	<u>\$ 3,213,824</u>	<u>\$ 301,041</u>

Statement of Revenues, Expenses and Changes in Net Position

	<u>2022</u>	<u>2021</u>	<u>Variance</u>
Operating Revenues			
Water sales	\$ 1,201,914	\$ 1,168,723	\$ 33,191
Other services	<u>18,210</u>	<u>16,682</u>	<u>1,528</u>
Total operating revenues	<u>1,220,124</u>	<u>1,185,405</u>	<u>34,719</u>
Operating Expenses			
Personnel services	303,798	308,454	(4,656)
Materials and services	746,587	748,531	(1,944)
Depreciation	<u>60,622</u>	<u>66,840</u>	<u>(6,218)</u>
Total operating expenses	<u>1,111,007</u>	<u>1,123,825</u>	<u>(12,818)</u>
Operating Income (Loss)	<u>109,117</u>	<u>61,580</u>	<u>47,537</u>
Nonoperating Revenues (Expenses)			
Interest income	8,095	8,980	(885)
System Dev. fees & review fees	<u>183,829</u>	<u>47,272</u>	<u>136,557</u>
Total nonoperating revenues (expenses)	<u>191,924</u>	<u>56,252</u>	<u>135,672</u>
Changes in Net Position	301,041	117,832	183,209
Net Position – Beg. of year	<u>3,213,824</u>	<u>3,095,991</u>	<u>117,833</u>
Net Position – End of year	<u>\$ 3,514,865</u>	<u>\$ 3,213,824</u>	<u>\$ 301,041</u>

2022 Operating Profit

The District's operating profit for the current year is up by \$183,209 from the previous year.

The District implemented increases in water rates in the middle of fiscal year 2021-22. In the current year water sales increased by \$33,191. There was a decrease in water costs of \$457,853 this year compared to the prior year of \$499,392. Personnel expense of \$303,798 was down compared to \$308,454 in the previous year.

Non-operating revenue and interest income was \$191,924 compared to \$56,252 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, 2022, amounts to \$1.40 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 during the current fiscal year by \$58,517.

Debt

The District has no outstanding debt.

District Governance and Board Resolutions

The Board adopted resolutions during the fiscal year:

- Resolution 2021-02 A resolution establishing water rates and other services charges for the Lake Grove Water District with an effective date of October 1, 2021
- Resolution 2022-01 A resolution regarding wage ranges for District Employees effective March 21, 2022.
- Resolution 2022-02 A resolution adopting the Budget for the Fiscal Year 2022-2023

Water Loss

The District's water loss for fiscal 2020-2021 is estimated to be between 8.00 and 9.00 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 losses in calculation 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 1,375 customer accounts, about 1,265 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.

The District had a rate increase in October 2021.

Economy and Weather

The District does not have the resource 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.

There are a few development projects underway, primarily residential. Several will be completed in fiscal year 2022-2023 resulting in new customers for the District. The City of Lake Oswego started the Lower Boones Ferry Road project fiscal year 2019-2020 and was completed in the spring of 2022.

Request 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, P.O. Box 1173 Lake Oswego, Oregon 97035

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
as of June 30, 2022

ASSETS

Current assets

Cash and cash equivalents	\$ 2,068,852
Accounts receivable	119,929
Prepaid expenses and deposits	13,514
Inventory	22,788
Office lease	39,950
Total current assets	<u>2,265,033</u>

Noncurrent assets

Land	8,457
Capital assets, net of depreciation	1,391,243
Office lease, net of current portion	<u>163,675</u>
Total noncurrent assets	<u>1,563,375</u>

Total assets **3,828,408**

LIABILITIES

Current liabilities

Accounts payable	92,323
Accrued compensated absences	7,443
Deposits	10,152
Lease liability, current portion	<u>39,950</u>

Total current liabilities **149,868**

Long term liabilities

Lease liability, net of current portion 163,675

Total liabilities **313,543**

NET POSITION

Net invested in capital assets	1,399,700
Restricted for System Development	431,014
Unrestricted	<u>1,684,151</u>

Total net position **\$ 3,514,865**

The notes to the financial statements are an integral part of this statement.

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS for the Year Ended June 30, 2022

OPERATING REVENUES	
Water service	\$ 1,201,914
Other service fees	<u>18,210</u>
Total operating revenues	<u>1,220,124</u>
OPERATING EXPENSES	
Maintenance and repairs	56,542
Water purchases	457,853
Professional services	62,884
General and administrative	340,507
Contract services	132,599
Depreciation	<u>60,622</u>
Total operating expenses	<u>1,111,007</u>
OPERATING INCOME (LOSS)	<u>109,117</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	8,095
System development and review fees	<u>183,829</u>
Total nonoperating revenues (expenses)	<u>191,924</u>
Changes in net position	301,041
NET POSITION - Beginning of year	<u>3,213,824</u>
NET POSITION - End of year	<u>\$ 3,514,865</u>

The notes to the financial statements are an integral part of this statement.

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,199,848
Cash paid to suppliers	(887,351)
Cash paid to employees	<u>(160,394)</u>
Net cash provided (used) by operating activities	<u>152,103</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
System development and review fees	183,829
Asset additions	<u>(2,106)</u>
Net cash provided (used) by financing activities	<u>181,723</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned on investments	<u>8,095</u>
Net increase (decrease) by cash and cash equivalents	341,921
Cash and cash equivalents - Beg. of year (restricted \$251,022)	<u>1,726,931</u>
Cash and cash equivalents - End of year (restricted \$431,014)	<u>\$ 2,068,852</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 109,117
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	60,622
(Increase) decrease in operating assets	
Accounts receivable	(2,066)
Prepays	(648)
Inventory	(10,440)
Increase (decrease) in operating liabilities	
Accounts payable	(5,798)
Accrued expenses	1,935
Customer deposits	<u>(619)</u>
Net cash provided (used) by operating activities	<u>\$ 152,103</u>

The notes to the financial statements are an integral part of this statement.

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2022**

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 THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2022**

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 represent 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.

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

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 consist 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.

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2022**

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>
Cash and cash equivalents	<u>\$ 2,068,852</u>	<u>\$ 1,637,838</u>	<u>\$ 431,014</u>

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

	<u>Balance</u>
Cash on hand	\$ 220
Deposits financial institution	597,398
Investments - external pool	<u>1,471,234</u>
Total cash and investments	<u>\$ 2,068,852</u>

Deposits

At the end of the fiscal year, the District's total deposits with financial institutions have a bank value of \$597,541. 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>\$ 1,471,234</u>

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>

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2022**

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Investments

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>Balance</u>
Accounts receivable	\$ <u>119,929</u>

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

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022:

	<u>7/01 Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30 Balance</u>
Capital assets not being depreciated				
Land	\$ 8,457	\$ 0	\$ 0	\$ 8,457
Work in progress	<u>300,236</u>	<u>0</u>	<u>300,236</u>	<u>0</u>
Total capital assets not being depreciated	<u>308,693</u>	<u>0</u>	<u>300,236</u>	<u>8,457</u>

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2022

NOTE 5 - CAPITAL ASSETS - Continued

Capital asset activity for the year ended June 30, 2022:

	<u>7/01</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30</u> <u>Balance</u>
Capital assets being depreciated				
Land improvements	122,843	0	0	122,843
Water system	2,843,680	300,236	0	3,143,916
Equipment	41,333	2,106	0	43,439
Total capital assets being depreciated	<u>3,007,856</u>	<u>302,342</u>	<u>0</u>	<u>3,310,198</u>
Accumulated depreciation				
Land improvements	67,695	7,095	0	74,791
Water system	1,756,886	51,049	0	1,807,935
Equipment	33,750	2,477	0	36,227
Total accum. depreciation	<u>1,858,331</u>	<u>60,621</u>	<u>0</u>	<u>1,918,953</u>
Total depreciable, net	<u>1,149,524</u>	<u>241,721</u>	<u>0</u>	<u>1,391,245</u>
Capital assets, net	<u>\$1,458,217</u>	<u>\$ 241,719</u>	<u>\$ 300,236</u>	<u>\$ 1,399,700</u>

Depreciation expense for year end was \$60,621.

NOTE 6 - LEASE ASSETS AND LEASE LIABILITY

The District leases office space under the terms of a non-cancelable agreement. The lease is for 3 years and 3 months starting August 1, 2020 and expiring on October 31, 2023. The District expects to exercise its option to renew the lease for another successive period of 3 years and 3 months. The lease requires monthly payments of \$3,620 for the first year, with an increase of 3% annually with each successive year, to be mutually renegotiated when renewed for the subsequent three years and 3 months.

The value of the leased asset at the beginning of the lease was estimated at \$273,096, the present value of 5 years and 3 months of lease payments discounted at 3.25%. The leased asset is being amortized over the lease term as the lease liability matures.

Leased asset and liability activity for the year ended June 30:

	<u>7/01</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Office lease	\$ 273,096	\$ 0	\$ 0	\$ 273,096	\$ 0
Less -accumulated amortization	<u>(32,117)</u>	<u>0</u>	<u>(37,354)</u>	<u>(69,471)</u>	
Leased assets, net	<u>\$ 240,979</u>	<u>\$ 0</u>	<u>\$ (37,354)</u>	<u>\$ 203,625</u>	<u>\$ 39,950</u>
Lease liability	<u>\$ 240,979</u>	<u>\$ 0</u>	<u>\$ (37,354)</u>	<u>\$ 203,625</u>	<u>\$ 39,950</u>

Amortization expense of \$37,354 and interest expense of \$7,280 were charged to the Water District operations.

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2022

NOTE 6 - LEASE ASSETS AND LEASE LIABILITY – Continued

Future maturities of the lease liability are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 39,950	\$ 5,462
2024	42,675	4,249
2025	45,526	2,954
2026	48,513	1,573
2027	26,961	245
Total	<u>\$ 203,625</u>	<u>\$ 14,483</u>

NOTE 7 - POSTEMPLOYMENT BENEFITS

For the year ended June 30, 2018, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was effective. This statement provides guidance for accounting for liabilities/(assets) related to retiree healthcare and other non-pension postemployment benefits (OPEB). At June 30, 2020, the District's net OPEB liability/(asset) and deferred inflows and outflows were determined by Management to not be material to the financial statements taken as a whole. Accordingly, no assets or liabilities relating to OPEB have been reported on the government-wide statements nor have note disclosures or required supplementary information (RSI) relating to OPEB are being presented.

NOTE 8 - 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 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 16, 2022, 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, 2022

GENERAL FUND

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Water service	\$ 1,400,000	\$ 1,400,000	\$ 1,201,914	\$ (198,086)
Other service fees	12,000	12,000	0	(12,000)
Interest	8,000	8,000	7,183	(817)
Miscellaneous	60	60	18,210	18,150
	<u>1,420,060</u>	<u>1,420,060</u>	<u>1,227,307</u>	<u>(192,753)</u>
Total revenues				
EXPENDITURES				
Personnel services	206,000	206,000	182,214	23,786
Materials and services	1,027,500	1,027,500	873,844	153,656
Contingency	100,000	100,000	0	100,000
	<u>1,333,500</u>	<u>1,333,500</u>	<u>1,056,058</u>	<u>277,442</u>
Total expenditures				
Excess (def) of revenues over expenditures	86,560	86,560	171,249	84,689
Unappropriated ending fund balance	(1,505,958)	(1,505,958)	0	1,505,958
FUND BALANCE - Beg. of year (Budget basis)	<u>1,419,398</u>	<u>1,419,398</u>	<u>1,539,806</u>	<u>120,408</u>
FUND BALANCE - End of year (Budget basis)	<u>\$ 0</u>	<u>\$ 0</u>	1,711,055	<u>\$ 1,711,055</u>
GAAP ADJUSTMENTS - Reconciled to June 30, 2021			1,422,996	
Compensated absences			(2,129)	
Inventory			10,445	
Asset additions			2,106	
Depreciation			<u>(60,622)</u>	
FUND BALANCE - End of year (GAAP)			<u>\$ 3,083,851</u>	

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, 2022**

SYSTEM DEVELOPMENT FUND

	Original and Final Budget	Actual	Variance
REVENUES			
Interest income	\$ 2,000	\$ 912	\$ (1,088)
SDC revenue	40,000	183,829	143,829
Total revenues	42,000	184,741	142,741
EXPENDITURES			
Materials and services	110,100	4,749	105,351
Contingency	100,000	0	100,000
Total expenditures	210,100	4,749	205,351
Excess (def) of revenues over expenditures	(168,100)	179,992	348,092
Unappropriated ending fund balance	(80,402)	0	80,402
FUND BALANCE - Beg.of year (Budget basis)	248,502	251,022	2,520
FUND BALANCE - End of year (Budget basis)	\$ 0	\$ 431,014	\$ 431,014

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, 2022

	Total Revenues	Total Expenditures	Net
Budgetary Basis			
General Fund	\$ 1,227,307	\$ 1,056,058	\$ 171,249
System Development Fund	184,741	4,749	179,992
Total budgetary basis	\$ 1,412,048	\$ 1,060,807	351,241
Add (Deduct) Items to Reconcile to Net Income on a Financial Reporting Basis			
Compensated Absences			(2,129)
Inventory			10,445
Capital asset activity			
Asset additions			2,106
Depreciation			(60,622)
Change in net position			301,041
NET POSITION - Beginning of year			3,213,824
NET POSITION - End of year			\$ 3,514,865

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

COMPLIANCE SECTION

GRIMSTAD & ASSOCIATE

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

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Fax (541) 994-2105

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, 2022, and the related notes to the financial statements, and have issued my report thereon dated November 16, 2022. 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 financial statements. 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:

- 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) as a basis for designing 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, 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 16, 2022