LAKE GROVE WATER DISTRICT

Lake Oswego, Oregon

AUDIT REPORT

for the Fiscal Year

JUNE 30, 2026

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	Dan Taylor 16666 Roosevelt Ave. Lake Oswego, OR 97035
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	Steve Koper 5581 Yorkshire Lake Oswego, OR 97035

ADMINISTRATORS AND ATTORNEY

District Manager — Tammy Schalk

Attorney

Clark Balfour
1455 SW Broadway #1500
Portland, OR 97201

Registered Agent and Office

Tammy Schalk
4550 Kruse Way, Suite 360
Lake Oswego, OR 97035

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

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Board of Commissioners
Lake Grove Water District
Lake Oswego, Oregon

Report on the Audit on the Financial Statements

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, 2026, 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, 2026, 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 presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 Legal and Regulatory Requirements

In accordance with the Minimum Standards Audit of Oregon Municipal Corporations, I have issued my report dated November 11, 2026 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 11, 2026

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 2025-26, ending June 30, 2026, providing an overview and analysis of the highlights of these statements.

Financial Highlights

- Total assets of the District were $3,811,920. This includes capital assets of $1,563,734 (net of accumulated depreciation and amortization), and current assets of $2,248,186 as of June 30, 2026.
- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,381,888 (net position). Of this amount, $1,449,831 (unrestricted net position) may be used to meet the District's ongoing obligations. Restricted $661,596 is for system development.
- Total liabilities are $430,032, with long term being $244,242. This represents the office lease payable over 6 years.
- Current liabilities were $185,790, down $25,043 from June 30, 2025.
- The District's net position decreased by $17,497 from June 30, 2025.
- Total operating loss for the fiscal year 2025-26 was $(205,667), compared to $(240,637) of the prior fiscal year.
- Total operating expenses for the fiscal year 2025-26 were $1,693,472, an increase of $107,782.

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 $3,381,888 at the close of the most recent fiscal year, and a decrease of $(17,497) from the prior fiscal year.

The largest portion of the District's net position (37%) 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 (20%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (43%) may be used to meet the District's ongoing obligations to ratepayers and creditors.

Statement of Net Position

	2026	2025	Variance
Assets			
Current assets	$ 2,248,186	$ 2,246,762	$ 1,424
Capital Assets, net	1,563,734	1,656,729	(92,995)
Total Assets	3,811,920	3,903,491	(91,571)
Liabilities			
Current liabilities	185,790	210,833	25,043
Long term lease	244,242	293,273	49,031
Total Liabilities	430,032	504,106	74,074
Net Position			
Net investment in capital assets	1,270,461	1,318,201	(47,740)
Restricted System Dev.	661,596	531,065	130,531
Unrestricted	1,449,831	1,550,119	(100,288)
Total Net Position	$ 3,381,888	$ 3,399,385	$ (17,497)

Statement of Revenues, Expenses and Changes in Net Position

	2026	2025	Variance
Operating Revenues			
Water sales	$ 1,473,480	$ 1,337,137	$ 136,343
Other services	14,325	7,916	6,409
Total Operating Revenue	1,487,805	1,345,053	142,752
Operating Expenses			
Personnel services	246,175	241,418	4,757
Materials and services	1,395,806	1,292,330	103,476
Depreciation	51,491	51,942	(451)
Total Operating Expense	1,693,472	1,585,690	107,782
Operating Income (Loss)	(205,667)	(240,637)	34,970
Non Operating Revenue (Expenses)			
Interest Income	65,984	79,529	(13,545)
System Dev. Fees and review fees	122,186	36,086	86,100
Total Non Operating Rev (Exp)	188,170	115,615	72,555
Changes in Net Position	(17,497)	(125,022)	107,525
NET POSITION Beginning of Year	3,399,385	3,524,407	(125,022)
NET POSITION End of Year	$ 3,381,888	$ 3,399,385	$ (17,497)

2026 Operating Profit

The District's operating loss for the current year is down by $34,970 from the previous year.

In the current year, water sales increased by $136,343. There was an increase in water costs, $805,110 this year compared to the prior year of $611,813. Personnel expense of $246,175 was up compared to $241,418 in the previous year by $4,757.

Non-operating revenue and interest income was $188,170 compared to $115,615 in 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, 2026, amounts to $1.56 million (net of depreciation). This investment in capital assets includes land, reservoirs, pipelines, sample stations, and equipment. Assets booked this year total $3,752 for office equipment. Total depreciation was $51,491, with the net capital assets of $1,563,734 decreased by $93,495 from the previous year. The right of use (office lease) amortization was $45,255.

Budgetary Highlights

The District is within budgeted amounts at the object classification levels in the funds. The General Operating Fund's expenditures were $1,676,574 which is less than budgeted by $67,926. Water service revenue of $1,473,480 was under budget by $3,480, and exceeded the previous years actual by $136,343.

Debt

The District is recognizing (under GASB 87) its office lease as an obligation owing of $293,273 at year end.

District Governance and Board Resolutions

The Board adopted resolutions during the fiscal year:

- Resolution 2025-03 A resolution establishing water rates and other service charges effective October 1, 2025
- Resolution 2026-01 A resolution regarding wage ranges for District employees effective January 20, 2026.
- Resolution 2026-02 A resolution adopting the Budget for fiscal year 2026-2027, adopted on June 15, 2026.

Water Loss

The District's water loss for fiscal 2025-2026 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 in 2015, and the inclusion of known water loses 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 1,377 customer accounts, about 1,265 of which are residential, and they produce close to 55% of operating revenue. The remaining commercial accounts are less than 10% of the total but generate around 45% of operating revenue. Although commercial accounts use much more water per property, on average and as expected, most of the District's revenue comes from the residential customer.

The District had a rate increase in October 2025.

The District has faced water costs increases from both water providers.

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.

There are a few development projects underway, primarily residential. Lake Oswego will have its first affordable housing community and will be completed in the spring of 2027.

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 District Manager, Lake Grove Water District, P.O. Box 1173 Lake Oswego, Oregon 97035, or email office@lakegrovewateroregon.gov
Fiscal Year audits, resolutions, Board meeting minutes-agendas, policies, water rates, development process, bill pay process, District updates, Annual water quality reports, Water Provider Consortium, and FAQ's can be found on the website at http://www.lakegrovewater.com

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
as of June 30, 2026

ASSETS	
Current assets	
Cash and cash equivalents	$ 2,086,829
Accounts receivable	136,661
Prepaid expenses and deposits	14,429
Inventory	10,267
Total current assets	2,248,186
Noncurrent assets	
Land	8,457
Capital assets, net of depreciation	1,555,277
Total noncurrent assets	1,563,734
Total assets	3,811,920
LIABILITIES	
Current liabilities	
Accounts payable	124,891
Compensated absences	11,868
Lease payable, current portion	49,031
Total current liabilities	185,790
Long term liabilities	
Lease payable, net of current portion	244,242
Total liabilities	430,032
NET POSITION	
Net investment in capital assets	1,270,461
Restricted for System Development	661,596
Unrestricted	1,449,831
Total net position	$ 3,381,888

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, 2026

OPERATING REVENUES	
Water service	$ 1,473,480
Other service fees	14,325
Total operating revenues	1,487,805
OPERATING EXPENSES	
Maintenance and repairs	19,284
Water purchases	805,110
Professional services	87,961
General and administrative	444,794
Contract services	239,577
Depreciation and amortization	96,746
Total operating expenses	1,693,472
OPERATING INCOME (LOSS)	(205,667)
NONOPERATING REVENUES (EXPENSES)	
Interest income	65,984
System development and review fees	122,186
Total nonoperating revenues (expenses)	188,170
Changes in net position	(17,497)
NET POSITION - Beginning of year	3,399,385
NET POSITION - End of year	$ 3,381,888

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, 2026

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 1,481,390
Cash paid to suppliers	(1,502,704)
Cash paid to employees	(195,545)
Net cash provided (used) by operating activities	(216,859)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
System development and review fees	122,186
Asset additions	(3,752)
Net cash provided (used) by financing activities	118,434
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned on investments	65,984
Net increase (decrease) by cash and cash equivalents	(32,441)
Cash and cash equivalents - Beg. of year (restricted $531,065)	2,119,270
Cash and cash equivalents - End of year (restricted $661,596)	$ 2,086,829
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	$ (205,667)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	51,491
(Increase) decrease in operating assets	
Accounts receivable	(37,611)
Prepaids	(1,032)
Inventory	4,778
Increase (decrease) in operating liabilities	
Accounts payable	(29,453)
Accrued expenses	635
Net cash provided (used) by operating activities	$ (216,859)

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

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 provides water to the area bordered by the City of Lake Oswego on the North and East; Cities of Rivergrove and Tualatin to the South; and City of Tigard and I-5 to the West. The District 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.

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

Inventory is 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.

	Years
Plant and Sanitary System	50
Equipment	3 - 15

Net Position

Net investment in capital assets, consists of all capital assets, net of accumulated depreciation. 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Operating Revenues, Non-Operating Revenues and Operating Expenses – Continued

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.

Original vs Final Budget

A budgetary adjustment was made this year due to the increase of water purchases. The contingency budget of $100,000 was adjusted to material and services to absorb the increase water costs.

Over Expenditure

In the General Fund, personnel services exceeded budget by $2,894.

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:

	Balance	Unrestricted	Restricted
Cash and cash equivalents	$ 2,086,829	$ 1,425,233	$ 661,596

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

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

	Balance
Cash on hand	$ 220
Deposits financial institution	395,795
Investments - external pool	1,690,814
Total cash and investments	$ 2,086,829

Deposits

At the end of the fiscal year, the District's total deposits with financial institutions have a bank value of $449,695. 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 Statues, 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:

	Fair Value
Local Government Investment Pool	$ 1,690,814

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 LGIP is unrated for risk. 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 www.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.

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Investments - External Pool - Continued

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:

	Balance
Accounts receivable	$ 136,661

Uncollectible accounts are written off as incurred, therefore, there is no allowance for uncollectible receivables.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year consists of the following:

	7/01 Balance	Increases	Decreases	6/30 Balance
Capital assets not being depreciated				
Land	$ 8,457	$ 0	$ 0	$ 8,457
Total capital assets not being depreciated	8,457	0	0	8,457
Capital assets being depreciated				
Land improvements	147,602	0	0	147,602
Water system	3,164,963	0	0	3,164,963
Equipment	68,234	3,750	0	71,984
Intangible assets: right of use	378,176	0	0	378,176
Total capital assets being depreciated	3,758,975	3,750	0	3,762,725
Accumulated depreciation				
Land improvements	(96,146)	(7,062)	0	(103,208)
Water system	(1,927,495)	(40,027)	0	(1,967,522)
Equipment	(47,414)	(4,401)	0	(51,815)
Intangible assets: right of use	(39,648)	(45,255)	0	(84,903)
Total accum. Depreciation	(2,110,703)	(96,745)	0	(2,207,448)
Total depreciable, net	1,648,272	(92,995)	0	1,555,277
Capital assets, net	$ 1,656,729	$ (92,995)	$ 0	$1,563,734

Depreciation expense for year end was $51,491 and amortization $45,255.

NOTE 6 – LEASED ASSESTS AND LEASED LIABILITIES

On May 1, 2024 the District signed an amended office lease agreement commencing May 1, 2024 for eighty- seven months, with the last payment being July 31, 2031. There is no option or right to extend beyond the new termination date. Under the lease, the rentable square feet was revised to 1,537 at an annual rate per SF provided by a lease table, going up yearly in small incremental amounts.

The first three months is abated unless the District defaults. If it does not cure the default in any applicable period, all abated Base Rent shall immediately become due and payable.

From and after May 1, 2024 and continuing during the term of this Amendment, the provision of Section 4 and Exhibit B shall continue with the District's percentage share of Expense Excess and Tax Excess increasing from 2.7589% to 2.9058%.

Under GASB Statement No.87, a lessee is required to recognize a lease liability and an intangible right-to-use asset based on the present value of expected payments over the term of the lease. The payments are discounted using the interest rates charged on the lease, if available or the Daily Treasury par Yield Curve Rate 4.28%. Variable payments are excluded from the valuation unless it is fixed in substance.

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

	7/1 Balance	Increases	Decreases	6/30 Balance
Leased Assets				
Office space	$ 378,176	$ -	$ -	$ 378,176
Accumulated amortization				
Office space	(39,648)	(45,255)	-	(84,903)
Leased assets, net	$ 338,528	$ (45,255)	$ -	$ 293,273
Lease payable				
Office space	$ 338,528	$ (45,255)	$ -	$ 293,273

Amortization expense of $45,255 and interest expense of $13,613 were charged to operations.

Future maturities of the lease liability are as follows:

Fiscal Year	Principal	Interest
2027	$ 49,031	$ 11,603
2028	53,026	9,427
2029	57,251	7,075
2030	61,718	4,538
2031	66,439	1,805
2032	5,809	21
Total	$293,274	$ 34,469

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, 2024, 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

In October of 2026 the Board passed a rate increase raising Tier 1 & 2 by .50 cents each effective October 1, 2026.

Management has evaluated subsequent events through November 11, 2026, the date on which the financial statements were available to be issued.

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

SUPPLEMENTARY INFORMATION

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, 2026

GENERAL FUND

	Original Budget	Final Budget	Variance with Original to Final Budget	Actual	Variance with Final Budget to Actual
REVENUES					
Water service	$ 1,470,000	$ 1,470,000	$ 0	$ 1,473,480	$ 3,480
Other service fees	12,000	12,000	0	13,910	1,910
Interest	84,000	84,000	0	57,639	(26,361)
Miscellaneous	40	40	0	415	375
Total revenues	1,566,040	1,566,040	0	1,545,444	(20,596)
EXPENDITURES					
Personnel services	278,900	278,900	0	281,794	(2,894)
Materials and services	1,365,600	1,465,600	100,000	1,394,780	70,820
Contingency	100,000	0	(100,000)	0	0
Total expenditures	1,744,500	1,744,500	0	1,676,574	67,926
Excess (def) of revenues over expenditures	(178,460)	(178,460)	0	(131,130)	47,330
FUND BALANCE - Beg. of year (Budget basis)	178,460	178,460	0	1,501,507	1,323,047
FUND BALANCE - End of year (Budget basis)	$ 0	$ 0	$ 0	1,370,377	$ 1,370,377
GAAP ADJUSTMENTS - Reconciled to June 30, 2025				1,366,813	
Compensated absences				35,619	
Inventory				(4,778)	
Asset additions				3,752	
Depreciation				(51,491)	
FUND BALANCE - End of year (GAAP)				$ 2,720,292	

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, 2026

SYSTEM DEVELOPMENT FUND

	Original and Final Budget	Actual	Variance
REVENUES			
Interest income	$ 9,000	$ 8,345	$ (655)
SDC revenue	91,000	122,186	31,186
Total revenues	100,000	130,531	30,531
EXPENDITURES			
Materials and services	110,000	0	110,000
Contingency	100,000	0	100,000
Total expenditures	210,000	0	210,000
Excess (def) of revenues over expenditures	(110,000)	130,531	240,531
FUND BALANCE - Beg.of year (Budget basis)	110,000	531,065	421,065
FUND BALANCE - End of year (Budget basis)	$ 0	$ 661,596	$ 661,596

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, 2026

	Total Revenues	Total Expenditures	Net
Budgetary Basis			
General Fund	$ 1,545,444	$ 1,676,574	$ (131,130)
System Development Fund	130,531	0	130,531
Total budgetary basis	$ 1,675,975	$ 1,676,574	(599)
Add (Deduct) Items to Reconcile to Net Income on a Financial Reporting Basis			
Compensated Absences			35,619
Inventory			(4,778)
Capital asset activity			
Asset additions			3,752
Depreciation			(51,491)
Change in net position			(17,497)
NET POSITION - Beginning of year			3,399,385
NET POSITION - End of year			$ 3,381,888

LAKE GROVE WATER DISTRICT
Lake Oswego, Oregon

AUDITOR'S COMMENTS AND DISCLOSURES

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, 2026, and the related notes to the financial statements, and have issued my report thereon dated November 11, 2026. 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).
- 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).

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, except for the following:

Original vs Final Budget

A budgetary adjustment was made this year due to the increase of water purchases. The contingency budget of $100,000 was adjusted to material and services to absorb the increase water costs.

Over Expenditure

In the General Fund, personnel services exceeded budget by $2,894.

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 11, 2026