

PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2021



12700 SW 72nd Ave.
Tigard, OR 97223

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

2020-2021

FINANCIAL REPORT

PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON

BOARD OF COMMISSIONERS

TERM EXPIRES

Leslie Goss, Chair

June 30, 2025

Jean Stoll, Secretary

June 30, 2025

Laura Martin

June 30, 2023

Paul Duden

June 30, 2025

Stephen Holmes

June 30, 2023

All board members will receive mail at the address below

REGISTERED AGENT

Saidee M. McKay
P.O. Box 1193
Lake Oswego, Oregon 97035

PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY

TABLE OF CONTENTS

PAGE
NUMBER

FINANCIAL SECTION:

INDEPENDENT AUDITORS' REPORT 1

REQUIRED SUPPLEMENTARY INFORMATION:

Management's Discussion and Analysis 2

BASIC FINANCIAL STATEMENTS:

Statements of Net Position 6

Statements of Revenues, Expenses and Changes in Net Position 7

Statements of Cash Flows 8

Notes to the Basic Financial Statements 9

Supplementary Information:

General Fund:

Balance Sheets Budgetary (Non-GAAP) Basis 16

Schedule of Revenues, Expenditures and Changes in Fund Balance
- Actual and Budget (Non-GAAP) Basis 17

System Improvement Fund:

Balance Sheets Budgetary (Non-GAAP) Basis 18

Schedule of Revenues, Expenditures and Changes in Fund Balance
- Actual and Budget (Non-GAAP) Basis 19

Independent Auditors' Report Required by Oregon State Regulations 20



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October 15, 2021

To the Board of Commissioners
Palatine Hill Water District
Multnomah County, Oregon

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Palatine Hill Water District, Multnomah County, Oregon, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents. The prior year comparative information has been derived from Palatine Hills Water District's financial statements and, in our report dated December 21, 2020, we expressed an unmodified opinion on the respective financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Palatine Hill Water District, Multnomah County, Oregon, at June 30, 2021 and 2020, and the results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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. We have applied certain limited procedures to the information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Palatine Hill Water District's financial statements. The supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the financial statements.

The supplementary information, as listed in the table of contents, 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 our opinion, the supplementary information, as listed in the table of contents, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Information

The listing of board members containing their term expiration dates, located before the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated October 15, 2021, on our consideration of compliance with certain provisions of 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 our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Kenneth Allen, CPA
Municipal Auditor

PAULY, ROGERS AND CO., P.C.

Palatine Hill Water District Management's Discussion and Analysis

As management of the Palatine Hill Water District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our notes to the financial statements.

Financial Highlights

- At June 30, 2021, the District's assets exceeded its liabilities by \$4,970,600
- The District has \$2,113,616 invested in capital assets, net of accumulated depreciation.

Overview of the Financial Statements

The Government Accounting Standards Board (GASB) Statement No. 34 significantly changed financial reporting for governmental entities. The statement takes effect over a three year period, depending on the size of the government. The largest entities are required to implement GASB 34 for fiscal years beginning after June 15, 2001. The District was required to fully implement GASB 34 for the fiscal year beginning July 1, 2003. Because the new reporting model is relatively unfamiliar, this section highlights the changes brought about by GASB 34.

The 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 annual report consists of the Statement of Net Position, the Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash Flows. 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. The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that do not affect cash until future fiscal periods. The Statement of Cash Flows presents information showing how the District's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income to net cash provided by operating activities (indirect method) as required by GASB 34. Budgetary schedules are included later in the financial report.

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

Total assets, liabilities and net position were as follows:

	<u>2021</u>	<u>2020</u>	<u>Change %</u>	<u>2019</u>	<u>Change %</u>
Assets:					
Current Assets	\$ 2,954,511	\$ 2,283,066	29%	\$ 1,981,964	15%
Capital Assets	<u>2,113,616</u>	<u>2,148,057</u>	-2%	<u>2,229,718</u>	-4%
Total Assets	<u><u>5,068,127</u></u>	<u><u>4,431,123</u></u>	14%	<u><u>4,211,682</u></u>	5%
Liabilities and Net Position:					
Current Liabilities	<u>97,527</u>	<u>90,093</u>	8%	<u>86,149</u>	5%
Total Liabilities	<u>97,527</u>	<u>90,093</u>	8%	<u>86,149</u>	5%
Net Position:					
Invested in Capital Assets	2,113,616	2,148,057	-2%	2,229,718	-4%
Unrestricted	<u>2,856,984</u>	<u>2,192,973</u>	30%	<u>1,895,815</u>	16%
Total Net Position	<u>4,970,600</u>	<u>4,341,030</u>	15%	<u>4,125,533</u>	5%
Total Liabilities and Net Position	<u><u>\$ 5,068,127</u></u>	<u><u>\$ 4,431,123</u></u>	14%	<u><u>\$ 4,211,682</u></u>	5%

Budget Variances in the General Fund

There are no Budget variances in the General Fund

The following schedule presents a summary of revenues, expenses and changes in net position for the District for the fiscal years ended June 30, 2021, 2020 and 2019, and the amount and percentage change from the prior year:

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>
Operating Revenue:					
Water Services	\$ 1,414,062	\$ 984,667	44%	\$ 1,050,852	-6%
Other Operating Revenues	<u>18,201</u>	<u>17,645</u>	3%	<u>18,330</u>	-4%
Total Operating Revenues	<u>1,432,263</u>	<u>1,002,312</u>	43%	<u>1,069,182</u>	-6%
Operating Expenses:					
Materials and Services	733,919	769,130	-5%	689,578	12%
Depreciation and Amortization	<u>86,862</u>	<u>81,661</u>	6%	<u>81,218</u>	1%
Total Operating Expenses	<u>820,781</u>	<u>850,791</u>	-4%	<u>770,796</u>	10%
Net Income, (loss) from operations	611,482	151,521	304%	298,386	-49%
Non-Operating Revenue, (Expenses):					
Systems Development Fee	-	23,930	-100%	23,932	0%
Earning on Investments	<u>18,088</u>	<u>40,046</u>	-55%	<u>41,116</u>	-3%
Total Non-Operating Revenue, (Expenses)	18,088	63,976	-72%	65,048	-2%
Change in Net Position	629,570	215,497	192%	363,434	-41%
Beginning Net Position	<u>4,341,030</u>	<u>4,125,533</u>	5%	<u>3,762,099</u>	10%
Ending Net Position	<u>\$ 4,970,600</u>	<u>\$ 4,341,030</u>	15%	<u>\$ 4,125,533</u>	5%

Capital Assets

As of June 30, 2021, the District had \$2,113,616 invested in a broad range of capital assets, including land, buildings, machinery, water distribution systems and equipment. These amounts are net of depreciation. See Note 7 to the financial statements for additional information on capital assets.

Economic Factors and Next Year's Budget and Rates

Locate and Raise Valve Boxes
Fire Hydrant Replacements
Miscellaneous Improvements

Requests for Information

This financial report is designed to provide a general overview of the Palatine Hill Water District's finances for parties interested in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Palatine Hill Water District, P.O. Box 1193, Lake Oswego, Oregon, 97035.

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

BASIC FINANCIAL STATEMENTS

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

**STATEMENTS OF NET POSITION
At June 30, 2021 and 2020**

	2021	2020
ASSETS:		
Current:		
Cash and Investments	\$ 2,770,740	\$ 2,144,102
Accounts Receivable	176,495	131,933
Prepaid Insurance	7,276	7,031
Total Current Assets	<u>2,954,511</u>	<u>2,283,066</u>
Capital Assets:		
Distribution System	403,007	403,007
Pump Station	59,386	59,386
Low Level Reservoir	28,600	28,600
High Level Tank	92,700	92,700
Ladder Platform	4,482	4,482
Military Road Project	47,157	47,157
System Upgrades	161,153	161,153
Storage Container	3,242	3,242
Terwilliger Line	174,535	174,535
Pump Station Upgrades	426,323	426,323
Water System Improvement	224,783	224,783
Scada System	54,396	54,396
AMR System	254,630	254,630
Riverwood Road Pipe Replacement	227,874	227,874
Hydrant	12,792	12,792
2012 Water Master Plan	28,661	28,661
Military Water Line Improvement	202,647	202,647
Elevated Tank Seismic Upgrade	746,916	746,916
Palatine Hill Road Water Line Replacement	488,714	488,714
Military Water Line Replacement	52,421	0
Total Capital Assets	3,694,419	3,641,998
Less: Accumulated Depreciation	<u>1,580,803</u>	<u>1,493,941</u>
Net Capital Assets	<u>2,113,616</u>	<u>2,148,057</u>
Total Assets	<u>\$ 5,068,127</u>	<u>\$ 4,431,123</u>
LIABILITIES, AND NET POSITION		
Current Liabilities:		
Accounts Payable	\$ 97,527	\$ 90,093
Total Current Liabilities	<u>97,527</u>	<u>90,093</u>
Net Position:		
Invested in Capital Assets	2,113,616	2,148,057
Unrestricted	<u>2,856,984</u>	<u>2,192,973</u>
Total Net Position	<u>4,970,600</u>	<u>4,341,030</u>
Total Liabilities and Net Position	<u>\$ 5,068,127</u>	<u>\$ 4,431,123</u>

The accompanying notes are an integral part of this statement.

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Years Ended June 30, 2021 and 2020**

	2021	2020
OPERATING REVENUES:		
Water Service	\$ 1,414,062	\$ 984,667
Miscellaneous	18,201	17,645
Total Operating Revenues	1,432,263	1,002,312
OPERATING EXPENSES:		
Materials and Services	733,919	769,130
Depreciation	86,862	81,661
Total Operating Expenses	820,781	850,791
Net Income, -Loss From Operations	611,482	151,521
OTHER INCOME:		
Systems Development Fee	0	23,930
Earnings on Investments	18,088	40,046
Total Other Income	18,088	63,976
Change in Net Position	629,570	215,497
Beginning Net Position	4,341,030	4,125,533
Ending Net Position	\$ 4,970,600	\$ 4,341,030

The accompanying notes are an integral part of this statement.

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

**STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 1,387,456	\$ 989,110
Cash Paid to Suppliers	-726,485	-765,186
Net cash provided -used by operating activities	660,971	223,924
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Capital Assets	-52,421	0
Earnings on Investments	18,088	40,046
Net Cash Provided, -Used By Investing	-34,333	40,046
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Contributions -SDC's	0	23,930
Net Cash Provided, -Used By Capital and Related Financing Activities	0	23,930
Net Increase, -Decrease in Cash and Investments	626,638	287,900
CASH AND INVESTMENTS AT BEGINNING OF YEAR	2,144,102	1,856,202
CASH AND INVESTMENTS AT END OF YEAR	\$ 2,770,740	\$ 2,144,102
 CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income, -Loss From Operations	\$ 611,482	\$ 151,521
Noncash Items Included in Income:		
Depreciation Expense	86,862	81,661
Increase, -Decrease In:		
Accounts Payable	7,434	3,944
Decrease, -Increase In:		
Prepaid Expenses	-245	-693
Receivables	-44,562	-12,509
Net Cash Provided, -Used By Operations	\$ 660,971	\$ 223,924

The accompanying notes are an integral part of this statement.

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the district's accounting policies are described below.

A. THE FINANCIAL REPORTING ENTITY

Palatine Hill Water District is a municipal corporation governed by an elected five member board. The District was organized under provisions of Oregon Statutes Chapter 264 for the purpose of operating a water district. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column the government-wide financial statements to emphasize that it is legally separate from the government. Palatine Hill Water District has no component units.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

The District's accounting records are maintained on a fund accounting basis for budgetary purposes. For financial reporting purposes, the financial statements are presented as a unitary enterprise operation, and as such, are reported as a single fund in the basic financial statements.

Financial operations of the District are accounted for in the following funds:

GENERAL FUND

This fund accounts for all financial resources and expenses of the District, except those required to be accounted for in another fund. The principal revenue source is water sales.

SYSTEM IMPROVEMENT FUND

This fund's primary sources of revenue are earnings on investments and transfers from the general fund. The fund accounts for major water system improvements.

C. BASIS OF ACCOUNTING

These financial statements include the application of GASB Statement Number 34, *basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments* and related standards. This standard provides for significant changes in terminology, recognition of contributions in Statement of Revenues, Expenses and Changes in Net Position, inclusion of a management discussion and analysis as required supplementary information and other changes.

The District's financial statements are prepared on the accrual basis of accounting using the "economic resources" measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred, regardless of the timing of the related cash flow. Accordingly, all assets and liabilities are reflected within the balance sheet with the equity section representing "total net position."

PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BUDGET

A budget is prepared and legally adopted for each fund on the accrual basis of accounting in the main program categories required by the Oregon Local Budget Law. The budgets for all funds are adopted on a basis consistent with generally accepted accounting principles, except depreciation expense is not recorded in budgetary statements. The District begins its budget process early in each fiscal year with the establishment of the budget committee. Recommendations are developed through late winter with the budget committee approving the budget in early spring. Public notices of the budget hearing are published generally in early spring with a public hearing being held approximately three weeks later.

The Board may amend the budget prior to adoption; however, budgeted expenses for each fund may not be increased by more than ten percent. The budget is adopted and appropriations are made no later than June 30th.

Expense budgets are appropriated at the following levels for each fund:

Materials and Services	Transfer to Other Funds
Capital Outlay	Contingencies

Expenses cannot exceed the above appropriation levels. Appropriations lapse at fiscal year end. Supplemental appropriations may occur if the board approves them due to a need, which was not determined at the time the budget was adopted. Budget amounts shown in the financial statements reflect the original budgeted amounts, one supplemental budget and one appropriation transfer authorized by the Board during the year. Expenses of the various funds were within authorized appropriations for the year ended June 30, 2021.

E. OPERATING REVENUES AND EXPENSES

Proprietary funds (enterprise) distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund is water charges. Water revenue is recorded when the service is rendered. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

F. NET POSITION

Net position is comprised of the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net position is classified in the following three categories.

Invested in capital assets – consists of all capital assets, net of accumulated depreciation.

Restricted – consists of external constraints placed on net position use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. When available for use alongside unrestricted net position, restricted net position is assumed to be utilized first.

Unrestricted net position – consists of all other net position that are not included in the other categories previously mentioned.

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. CAPITAL ASSETS

Purchased capital assets are stated at cost where historical records are available and at estimated historical cost where no historical records exist. Major additions, improvements and replacements with an initial individual cost of at least \$2,500 are capitalized. 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. Donated capital assets are stated at estimated fair value at the date of donation. Gains or losses realized from the sale of capital assets are reflected in the statement of operations.

Property, plant and equipment are depreciated and intangible assets, such as system buy-in-costs, are amortized using the straight-line method over their estimated lives as follows:

Distribution System	40 Years	Ladder Platform Cage	10 Years
Pump Station	20 - 40 Years	System Upgrades	40 Years
Low Level Reservoir	10 - 40 Years	Storage Container	10 Years
High Level Tank	10 - 40 Years	Military Road Project	40 Years

H. CONTRIBUTED CAPITAL

Contributions consist primarily of service connection fees and system development charges received from customers and developers.

I. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both:

- a. Readily convertible to known amounts of cash.
- b. So near to their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally only investments with original maturities of three months or less meet this definition.

J. COMPARATIVE DATA

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the government's financial position and operations.

K. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. PREPAID INSURANCE

Unexpired insurance premiums at June 30 on insurance policies expiring through 2021 are recorded as prepaid insurance and are recorded as expenditures when used.

M. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have an item that qualifies for reporting in this category. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have an item that qualifies for reporting in this category.

N. INTERFUND TRANSACTIONS

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Operating interfund transactions are reported as transfers.

O. FAIR VALUE INPUTS AND METHODOLOGIES AND HIERARCHY

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based up on the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

Level 1 – unadjusted price quotations in active markets/exchanges for identical assets or liabilities that each Fund has the ability to access

Level 2 – other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market–corroborated inputs)

Level 3 – unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including each Fund’s own assumptions used in determining the fair value of investments)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS

State statutes govern the District’s cash management policies, because the District does not have an official investment policy. Statutes authorize the District to invest in banker’s acceptances, time certificates of deposit, repurchase agreements, obligations of the United States and its agencies and instrumentalities, and the Oregon State Treasurer's Local Government Investment Pool. Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury.

Investments

Investments in the Local Government Investment Pool (LGIP) are included in the Oregon Short-Term Fund, which is an external investment pool that is not a 2a-7-like external investment pool, and is not registered with the U.S. Securities and Exchange Commission as an investment company. Fair value of the LGIP is calculated at the same value as the number of pool shares owned. The unit of account is each share held, and the value of the position would be the fair value of the pool’s share price multiplied by the number of shares held. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund appears to be in compliance with all portfolio guidelines at June 30, 2021. The LGIP seeks to exchange shares at \$1.00 per share; an investment in the LGIP is neither insured nor guaranteed by the FDIC or any other government agency. Although the LGIP seeks to maintain the value of share investments at \$1.00 per share, it is possible to lose money by investing in the pool. We intend to measure these investments at book value since it approximates fair value. The pool is comprised of a variety of investments. These investments are characterized as a level 2 fair value measurement in the Oregon Short Term Fund’s audited financial report. As of June 30, 2021, the fair value of the position in the LGIP is 100.40% of the value of the pool shares as reported in the Oregon Short Term Fund audited financial statements. Amounts in the State Treasurer’s Local Government Investment Pool are not required to be collateralized.

Cash and Investments at June 30, 2021 and 2020, (recorded at fair value) consisted of:

Deposits With Financial Institutions:	<u>2021</u>	<u>2020</u>
Demand Deposits		
Checking	\$ 216,791	\$ 178,226
Certificates of Deposit	26,446	26,428
Investments	<u>2,527,503</u>	<u>1,939,448</u>
Total	<u>\$ 2,770,740</u>	<u>\$ 2,144,102</u>

The District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in months)</u>	
		<u>Less than 3</u>	<u>More than 3</u>
State Treasurer's Investment Pool, June 30, 2021	\$ 2,527,503	\$ 2,527,503	\$ -
Total 2021	<u>\$ 2,527,503</u>	<u>\$ 2,527,503</u>	<u>\$ -</u>
State Treasurer's Investment Pool, June 30, 2020	\$ 1,939,448	\$ 1,939,448	\$ -
Total 2020	<u>\$ 1,939,448</u>	<u>\$ 1,939,448</u>	<u>\$ -</u>

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. The District has a certificate of deposit that matures in August of 2021.

Credit Risk

State law limits investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs) and commercial paper to the top rating (top two if issued on Oregon business enterprises). The District is not invested in any type of securities at June 30, 2021. The State Treasurer's investment pool is an open-ended, no-load diversified portfolio. The fund is not registered with the U.S. Securities and Exchange Commission as an investment company and is not rated.

Custodial Credit Risk

At June 30, 2021, the District's net carrying amount of deposits was \$243,237 and the bank balance was \$243,277. At June 30, 2020, the net carrying amount of deposits was \$204,654 and the bank balance was \$208,125. All deposits were FDIC insured at the end of 2021 and 2020.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due from District customers for water service. Bad debts are written off when incurred due to historically low write off amounts.

4. PREPAID INSURANCE

Unexpired insurance premiums represent prepaid premiums on insurance policies expiring beyond the fiscal year end.

5. RECONCILIATION OF FUND BALANCE TO NET POSITION

The reconciliation of District Net Position is as follows:

	<u>2021</u>	<u>2020</u>
General Fund Ending Fund Balance	\$ 1,284,019	\$ 884,095
System Improvement Fund Ending Balance	1,572,965	1,308,878
Capital Assets, Net of Accumulated Depreciation	<u>2,113,616</u>	<u>2,148,057</u>
GAAP Basis Net Position	<u>\$ 4,970,600</u>	<u>\$ 4,341,030</u>

6. INTERFUND TRANSFERS

Interfund transfers are used to fund operations between funds. The amounts are clearly shown on the face of the budgetary statements.

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

7. CAPITAL ASSETS

The changes in Capital Assets for the years ended June 30, 2020 and 2021, are summarized below:

	BALANCE			BALANCE			BALANCE		
	JUNE 30, 2019	ADDITIONS	DELETIONS	JUNE 30, 2020	ADDITIONS	DELETIONS	JUNE 30, 2021	ADDITIONS	DELETIONS
Capital Assets									
Distribution System	\$ 403,007	\$ -	\$ -	\$ 403,007	\$ -	\$ -	\$ 403,007		
Pump Station	485,709	-	-	485,709	-	-	485,709		
Low Level Reservoir	28,600	-	-	28,600	-	-	28,600		
High Level Tank	92,700	-	-	92,700	-	-	92,700		
Ladder Platform Cage	4,482	-	-	4,482	-	-	4,482		
Military Road Project	47,157	-	-	47,157	-	-	47,157		
System Upgrades	161,153	-	-	161,153	-	-	161,153		
Storage Container	3,242	-	-	3,242	-	-	3,242		
Terwilliger Line	174,535	-	-	174,535	-	-	174,535		
Water System Improvement	224,783	-	-	224,783	-	-	224,783		
Scada System	54,396	-	-	54,396	-	-	54,396		
AMR System	254,630	-	-	254,630	-	-	254,630		
Riverwood Road Pipe	227,874	-	-	227,874	-	-	227,874		
Hydrant Replacement	12,792	-	-	12,792	-	-	12,792		
2012 Water Master Plan	28,661	-	-	28,661	-	-	28,661		
Military Water Line Improvement	202,647	-	-	202,647	-	-	202,647		
Seismic Upgrade	746,916	-	-	746,916	-	-	746,916		
Palatine Hill Road WL Replacement	488,714	-	-	488,714	-	-	488,714		
Military Water Line Replacement	-	-	-	-	52,421	-	52,421		
Total	3,641,998	-	-	3,641,998	52,421	-	3,694,419		
Accumulated Depreciation									
Equipment	1,412,280	81,661	-	1,493,941	86,862	-	1,580,803		
Total	1,412,280	\$ 81,661	\$ -	1,493,941	\$ 86,862	\$ -	1,580,803		
Total Net Capital Assets	\$ 2,148,057			\$ 2,148,057			\$ 2,113,616		

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District purchases commercial insurance to minimize its exposure to these risks. Settled claims have not exceeded this commercial coverage for any of the past four years.

9. CONTINGENCIES

The Covid-19 outbreak in the United States has caused substantial disruption to businesses and local governments due to mandated and voluntary suspension of operations and stay at home orders. The direct long-term economic impact to the District is unknown at this time.

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

SUPPLEMENTARY INFORMATION

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

**BALANCE SHEETS (NON-GAAP) BASIS
At June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<u>GENERAL FUND</u>		
ASSETS:		
Current:		
Cash	\$ 192,632	\$ 118,395
Investments	997,881	716,829
Accounts Receivable	176,495	131,933
Prepaid Insurance	7,276	7,031
Total Current Assets	<u>1,374,284</u>	<u>974,188</u>
Capital Assets:		
Distribution System	403,007	403,007
Pump Station	59,386	59,386
Low Level Reservoir	28,600	28,600
High Level Tank	92,700	92,700
Ladder Platform	4,482	4,482
Military Road Project	47,157	47,157
System Upgrades	161,153	161,153
Storage Container	3,242	3,242
Terwilliger Line	174,535	174,535
Pump Station Upgrades	426,323	426,323
Water System Improvement	224,783	224,783
Scada System	54,396	54,396
AMR System	254,630	254,630
Riverwood Road Pipe Replacement	227,874	227,874
Hydrant	12,792	12,792
2012 Water Master Plan	28,661	28,661
Military Water Line Improvement	202,647	202,647
Elevated Tank Seismic Upgrade	746,916	746,916
Palatine Hill Road Water Line Replacement	488,714	488,714
Military Water Line Replacement	52,421	0
Total Capital Assets	3,694,419	3,641,998
Less: Accumulated Depreciation	<u>1,580,803</u>	<u>1,493,941</u>
Net Capital Assets	<u>2,113,616</u>	<u>2,148,057</u>
Total Assets	<u>\$ 3,487,900</u>	<u>\$ 3,122,245</u>
LIABILITIES AND FUND BALANCES:		
Current Liabilities:		
Accounts Payable	<u>\$ 90,265</u>	<u>\$ 90,093</u>
Fund Balances:		
Invested in Capital Assets	2,113,616	2,148,057
Unrestricted	<u>1,284,019</u>	<u>884,095</u>
Total Fund Balances	<u>3,397,635</u>	<u>3,032,152</u>
Total Liabilities and Fund Balances	<u>\$ 3,487,900</u>	<u>\$ 3,122,245</u>

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (NON-GAAP) BASIS
For the Year Ended June 30, 2021**

<u>GENERAL FUND</u>				VARIANCE TO FINAL BUDGET POSITIVE -NEGATIVE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES:				
Water Service	\$ 1,200,000	\$ 1,200,000	\$ 1,414,062	\$ 214,062
Service Installations	5,600	5,600	0	(5,600)
Interest	15,000	15,000	6,060	-8,940
T-Mobile	15,875	15,875	16,267	392
Miscellaneous	3,000	3,000	1,934	-1,066
	<u>1,239,475</u>	<u>1,239,475</u>	<u>1,438,323</u>	<u>198,848</u>
EXPENDITURES:				
Water Service:				
Water Purchases	448,168	448,168	440,105	8,063
Power	35,000	35,000	35,518	-518
Maintenance	55,000	55,000	43,387	11,613
Professional Services	153,000	154,400	144,786	9,614
General Insurance	13,000	14,000	13,520	480
Telephone	4,200	5,200	4,139	1,061
Office Expense/Postage/Supplies	5,000	5,000	2,488	2,512
Dues and Subscriptions	2,500	2,500	2,496	4
Elections and Publications	1,500	1,500	391	1,109
Miscellaneous	2,000	2,000	1,569	431
	<u>719,368</u>	<u>722,768</u> (1)	<u>688,399</u>	<u>34,369</u>
Operating Contingency	<u>50,000</u>	<u>46,600</u> (1)	<u>0</u>	<u>46,600</u>
	<u>769,368</u>	<u>769,368</u>	<u>688,399</u>	<u>80,969</u>
Excess of Revenues Over, -Under Expenditures	<u>470,107</u>	<u>470,107</u>	<u>749,924</u>	<u>279,817</u>
Other Financing Sources, -Uses:				
Transfers Out	<u>-350,000</u>	<u>-350,000</u> (1)	<u>-350,000</u>	<u>0</u>
	<u>-350,000</u>	<u>-350,000</u>	<u>-350,000</u>	<u>0</u>
Net Change in Fund Balance	120,107	120,107	399,924	279,817
Beginning Fund Balance	<u>847,104</u>	<u>847,104</u>	<u>884,095</u>	<u>36,991</u>
Ending Fund Balance	<u>\$ 967,211</u>	<u>\$ 967,211</u>	<u>\$ 1,284,019</u>	<u>\$ 316,808</u>

(1) Appropriation Level

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

**BALANCE SHEETS (NON-GAAP) BASIS
At June 30, 2021 and 2020**

SYSTEM IMPROVEMENT FUND

	<u>2021</u>	<u>2020</u>
ASSETS:		
Current:		
Cash	\$ 24,158	\$ 86,259
Investments	<u>1,556,069</u>	<u>1,222,619</u>
Total Assets	<u>\$ 1,580,227</u>	<u>\$ 1,308,878</u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts Payable	<u>\$ 7,262</u>	<u>\$ 0</u>
Fund Balances:		
Unrestricted	<u>1,572,965</u>	<u>1,308,878</u>
Total Liabilities and Fund Balances	<u>\$ 1,580,227</u>	<u>\$ 1,308,878</u>

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (NON-GAAP) BASIS
For the Year Ended June 30, 2021**

SYSTEM IMPROVEMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE -NEGATIVE
REVENUES:				
Systems Development Fee	\$ 24,000	\$ 24,000	\$ 0	\$ -24,000
Interest	12,000	12,000	12,028	28
Total Revenues	36,000	36,000	12,028	-23,972
EXPENDITURES:				
Upgrades:				
Capital Outlay	1,313,000	1,313,000	97,720	1,215,280
Bank Charges	250	250	221	29
Total Upgrades	1,313,250	1,313,250 (1)	97,941	1,215,309
Operating Contingency	50,000	50,000 (1)	0	50,000
Total Expenditures	1,363,250	1,363,250	97,941	1,265,309
Excess of Revenues Over, -Under Expenditures	-1,327,250	-1,327,250	-85,913	1,241,337
Other Financing Sources, -Uses:				
Transfers In	350,000	350,000	350,000	0
Total Other Financing Sources, -Uses	350,000	350,000	350,000	0
Net Change in Fund Balance	-977,250	-977,250	264,087	1,241,337
Beginning Fund Balance	1,210,549	1,210,549	1,308,878	98,329
Ending Fund Balance	\$ 233,299	\$ 233,299	\$ 1,572,965	\$ 1,339,666

(1) Appropriation Level

**PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON**

Independent Auditors' Report Required by Oregon State Regulations



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Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the Palatine Hill Water District as of and for the year ended June 30, 2021, and have issued our report thereon dated October 15, 2021. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Palatine Hill Water District's financial statements are free of material misstatement, we performed tests of its 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, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we 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 our testing nothing came to our attention that caused us to believe the Palatine Hill Water 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.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the internal controls over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal controls over financial reporting.

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

A handwritten signature in black ink, appearing to read "Ken Allen". The signature is fluid and cursive, with a large initial "K" and "A".

Kenneth Allen, CPA

Municipal Auditor

PAULY, ROGERS AND CO., P.C.