

PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2023



**12700 SW 72nd Ave.
Tigard, OR 97223**

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

2022-2023

FINANCIAL REPORT

PALATINE HILL WATER DISTRICT
MULTNOMAH COUNTY, OREGON

BOARD OF COMMISSIONERS

TERM EXPIRES

Leslie Goss, Chair

June 30, 2025

Laura Martin, Secretary

June 30, 2023

David Veverka

June 30, 2025

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

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March 11, 2024

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

INDEPENDENT AUDITORS' REPORT

Opinions

We have audited the accompanying basic financial statements of Palatine Hill Water District (the District) as of and for the years ended June 30, 2023, and 2022, and the related notes to the basic financial statements, as listed in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Palatine Hills Water District as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 the basic financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the basic financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Palatine Hills 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the basic financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. 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 a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, 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 basic financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the basic 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 basic 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 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 basic financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are 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 we 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 is the responsibility of management and, 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to 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 Management's Discussion and Analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on them.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the listing of board members containing their term expiration dates, located before the table of contents, but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated March 11, 2024 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, 2023. 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, 2023, the District's assets exceeded its liabilities and deferred inflows by \$6,558,639.
- The District has \$2,090,312 invested in capital assets, net of accumulated depreciation.

Overview of the Financial Statements

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, deferred inflows and net position were as follows:

	2023	2022	Change %	2021	Change %
Assets:					
Current Assets	\$4,531,315	\$ 3,662,488	24%	\$ 2,954,511	24%
Lease Receivable	\$250,743	265,117	-5%	279,277	-5%
Capital Assets	<u>2,090,312</u>	<u>2,033,498</u>	3%	<u>2,113,616</u>	-4%
Total Assets	<u><u>6,872,370</u></u>	<u><u>5,961,103</u></u>	15%	<u><u>5,347,404</u></u>	11%
Liabilities:					
Current Liabilities	<u>77,362</u>	69,288	12%	<u>97,527</u>	-29%
Total Liabilities	<u>77,362</u>	69,288	12%	<u>97,527</u>	-29%
Deferred Inflows:					
Lease (GASB 87)	<u>236,369</u>	254,787	-7%	<u>273,206</u>	-7%
Total Deferred Inflows	<u>236,369</u>	254,787	-7%	<u>273,206</u>	-7%
Net Position:					
Invested in Capital Assets	2,090,312	2,033,498	3%	2,113,616	-4%
Unrestricted	<u>4,468,327</u>	<u>3,603,530</u>	24%	<u>2,863,055</u>	26%
Total Net Position	<u>6,558,639</u>	<u>5,637,028</u>	16%	<u>4,976,671</u>	13%
Total Liabilities, Deferred Inflows and Net Position	<u><u>6,872,370</u></u>	<u><u>\$ 5,961,103</u></u>	15%	<u><u>\$ 5,347,404</u></u>	11%

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 increase in net position for the District for the fiscal year ended June 30, 2023, 2022 and 2021, and the amount and percentage change from the prior year:

	2023	2022	Change %	2021	Change %
Operating Revenue:					
Water Services	1,449,554	\$ 1,339,902	8%	\$ 1,414,062	-5%
Other Operating Revenues	<u>24,722</u>	<u>24,578</u>	1%	<u>24,272</u>	1%
Total Operating Revenues	<u>1,474,276</u>	<u>1,364,480</u>	8%	<u>1,438,334</u>	-5%
Operating Expenses:					
Materials and Services	638,702	600,716	6%	733,919	-18%
Depreciation and Amortization	<u>86,964</u>	<u>86,234</u>	1%	<u>86,862</u>	-1%
Total Operating Expenses	<u>725,666</u>	<u>686,950</u>	6%	<u>820,781</u>	-16%
Net Income, (loss) from operations	748,610	677,530	10%	617,553	10%
Non-Operating Revenue, (Expenses):					
Systems Development Fee	26,252	-		-	-5%
Earning on Investments	<u>146,749</u>	<u>(17,173)</u>	-955%	<u>18,088</u>	-195%
Total Non-Operating Revenue, (Expenses)	173,001	(17,173)	-1107%	18,088	-195%
Change in Net Position	921,611	660,357	40%	635,641	4%
Beginning Net Position	<u>5,637,028</u>	<u>4,976,671</u>	13%	<u>4,341,030</u>	15%
Ending Net Position	<u>\$ 6,558,639</u>	<u>\$ 5,637,028</u>	16%	<u>\$ 4,976,671</u>	13%

Capital Assets

As of June 30, 2023, the District had \$2,090,312 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 6 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, 2023 and 2022**

	2023	2022
ASSETS:		
Cash and Investments	\$ 4,319,999	\$ 3,579,805
Accounts Receivable	202,882	74,840
Prepaid Insurance	8,434	7,843
Lease Receivable (GASB 87)	250,743	265,117
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	52,421
Elk Rock Replacement	120,752	-
Breyman/Military Waterline Replacement	29,142	6,116
Total Capital Assets	3,844,313	3,700,535
Less: Accumulated Depreciation	1,754,001	1,667,037
Net Capital Assets	2,090,312	2,033,498
Total Assets	\$ 6,872,370	\$ 5,961,103
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 77,362	\$ 69,288
Total Liabilities	77,362	69,288
DEFERRED INFLOWS:		
Lease (GASB 87)	236,369	254,787
NET POSITION:		
Invested in Capital Assets	2,090,312	2,033,498
Unrestricted	4,468,327	3,603,530
Total Net Position	6,558,639	5,637,028
Total Liabilities, Deferred Inflows and Net Position	\$ 6,872,370	\$ 5,961,103

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES:		
Water Service	\$ 1,449,554	\$ 1,339,902
Miscellaneous	24,722	24,578
Total Operating Revenues	<u>1,474,276</u>	<u>1,364,480</u>
OPERATING EXPENSES:		
Materials and Services	638,702	600,716
Depreciation	86,964	86,234
Total Operating Expenses	<u>725,666</u>	<u>686,950</u>
Net Income, -Loss From Operations	748,610	677,530
OTHER INCOME:		
Systems Development Fee	26,252	-
Earnings on Investments	146,749	(17,173)
Total Other Income	173,001	(17,173)
Change in Net Position	921,611	660,357
Beginning Net Position	<u>5,637,028</u>	<u>4,976,671</u>
Ending Net Position	<u>\$ 6,558,639</u>	<u>\$ 5,637,028</u>

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, 2023 and 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 1,341,599	\$ 1,461,309
Cash Paid to Suppliers	-630,628	-628,955
Net cash provided -used by operating activities	710,971	832,354
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Capital Assets	-143,778	-6,116
Earnings on Investments	146,749	-17,173
Net Cash Provided, -Used By Investing	2,971	-23,289
Net Increase, -Decrease in Cash and Investments	740,194	809,065
CASH AND INVESTMENTS AT BEGINNING OF YEAR	3,579,805	2,770,740
CASH AND INVESTMENTS AT END OF YEAR	\$ 4,319,999	\$ 3,579,805
 CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income, -Loss From Operations	\$ 748,610	\$ 677,530
Noncash Items Included in Income:		
Depreciation Expense	86,964	86,234
Increase, -Decrease In:		
Accounts Payable	8,074	-28,239
Decrease, -Increase In:		
Prepaid Expenses	-591	-567
Lease Receivable	14,374	-4,259
Deferred Inflow	-18,418	-
Accounts Receivable	-128,042	101,655
Net Cash Provided, -Used By Operations	\$ 710,971	\$ 832,354

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."

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BUDGET

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, 2022.

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.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. CAPITAL ASSETS

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.

L. PREPAID INSURANCE

Unexpired insurance premiums at June 30 on insurance policies expiring through 2022 are recorded as prepaid insurance and are recorded as expenditures when used.

M. LEASE RECEIVABLE

Lease receivables are recorded when the lease is executed, and discounted based on the implicit rate stated in the lease or the District's incremental borrowing rate. Due to the District's past collections experience, no allowance has been recorded for the fiscal years ended June 30, 2022 or 2023.

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

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. 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.

O. 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.

P. 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, 2023. 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 materially 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, 2023, the fair value of the position in the LGIP is 98.98% 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, 2023 and 2022, (recorded at fair value) consisted of:

Deposits With Financial Institutions:	2023	2022
Demand Deposits		
Checking	\$ 281,497	\$ 168,041
Certificates of Deposit	26,468	26,455
Investments	4,012,034	3,385,309
Total	\$ 4,319,999	\$ 3,579,805

The District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in months)	
		Less than 3	More than 3
State Treasurer's Investment Pool, June 30, 2022	\$ 4,012,034	\$ 4,012,034	\$ -
Total 2022	\$ 4,012,034	\$ 4,012,034	\$ -
State Treasurer's Investment Pool, June 30, 2021	\$ 3,385,309	\$ 3,385,309	\$ -
Total 2021	\$ 3,385,309	\$ 3,385,309	\$ -

**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 2023.

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, 2023. 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, 2023, the District's net carrying amount of deposits was \$307,965 and the bank balance was \$308,266. At June 30, 2022, the net carrying amount of deposits was \$194,496 and the bank balance was \$194,671. All deposits were FDIC insured at the end of 2023 and 2022.

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. LEASE RECEIVABLE (GASB 87)

For the years ended June 30, 2023 and 2022, the financial statements include the adoption of GASB Statement No. 87, Leases. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

On 7/1/20, the District entered in to a 190 month lease as Lessor for the right to place a cell tower on the District's property. An initial lease receivable was recorded in the amount of \$291,624. As of June 30, 2023 and 2022, the value of the lease receivable was \$250,743 and \$265,117 respectively. The lessee is required to make monthly payments ranging from \$1,323 to \$2,011 throughout the term of the contract. The discount rate applied to the lease is 1.5%. The value of the deferred inflow of resources as of June 30, 2023 and 2022 was \$236,369 and \$254,787 respectively. The District recognized lease revenue of \$22,297 and \$22,510 during 2022-2023 and 2021-2022 respectively. Beginning in 2026, the lessee has 2 extension options, each for 60 months.

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

NOTES TO BASIC FINANCIAL STATEMENTS

5. LEASE RECEIVABLE (GASB 87) - (CONTINUED)

Future Principal and Interest payments on the lease are as follows:

Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	14,591	3,661	18,252
2025	14,811	3,441	18,252
2026	15,491	3,217	18,708
2027	18,024	2,964	20,988
2028	18,296	2,692	20,988
2029-2033	102,629	9,123	111,752
2034-2037	66,900	1,474	68,374
	<u>\$ 250,743</u>	<u>\$ 26,571</u>	<u>\$ 277,314</u>

6. CAPITAL ASSETS

The changes in Capital Assets for the years ended June 30, 2022 and 2023, are summarized below:

	JUNE 30, 2021	ADDITIONS	JUNE 30, 2022	ADDITIONS	JUNE 30, 2023
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	-	52,421
Elk Rock Replacement	-	-	-	120,752	120,752
Breyman/Military Waterline Replacement	-	6,116	6,116	23,026	29,142
Total	3,694,419	6,116	3,700,535	143,778	3,844,313
Accumulated Depreciation					
Equipment	1,580,803	86,234	1,667,037	86,964	1,754,001
Total	1,580,803	\$ 86,234	1,667,037	\$ 86,964	1,754,001
Total Net Capital Assets	<u>\$ 2,113,616</u>		<u>\$ 2,033,498</u>		<u>\$ 2,090,312</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

7. RECONCILIATION OF FUND BALANCE TO NET POSITION

The reconciliation of District Net Position is as follows:

	<u>2023</u>	<u>2022</u>
General Fund Ending Fund Balance	\$ 1,914,903	\$ 1,515,596
System Improvement Fund Ending Balance	2,553,424	2,077,604
Lease Asset, Net of Deferred Inflows	-	10,330
Capital Assets, Net of Accumulated Depreciation	2,090,312	2,033,498
GAAP Basis Net Position	<u>\$ 6,558,639</u>	<u>\$ 5,637,028</u>

8. INTERFUND TRANSFERS

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

9. 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.

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

SUPPLEMENTARY INFORMATION

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

**BALANCE SHEETS (NON-GAAP) BASIS
At June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<u>GENERAL FUND</u>		
ASSETS:		
Current:		
Cash	\$ 259,049	\$ 152,935
Investments	1,498,334	1,344,940
Accounts Receivable	202,882	74,840
Lease Receivable	250,743	-
Prepaid Insurance	8,434	7,843
	<u>2,219,442</u>	<u>1,580,558</u>
Total Assets	<u>\$ 2,219,442</u>	<u>\$ 1,580,558</u>
LIABILITIES AND FUND BALANCES:		
Current Liabilities:		
Accounts Payable	\$ 68,170	\$ 64,962
Deferred Inflows:		
Lease	\$ 236,369	\$ -
Fund Balances:		
Unrestricted	<u>1,914,903</u>	<u>1,515,596</u>
Total Fund Balances	<u>1,914,903</u>	<u>1,515,596</u>
Total Liabilities and Fund Balances	<u>\$ 2,219,442</u>	<u>\$ 1,580,558</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, 2023**

	<u>GENERAL FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE -NEGATIVE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES:				
Water Service	\$ 1,400,000	\$ 1,400,000	\$ 1,449,016	\$ 49,016
Service Installations	2,800	2,800	538	(2,262)
Interest	6,000	6,000	53,404	47,404
T-Mobile	18,252	18,252	22,298	4,046
Miscellaneous	3,000	3,000	12,754	9,754
	<u>1,430,052</u>	<u>1,430,052</u>	<u>1,538,010</u>	<u>107,958</u>
EXPENDITURES:				
Water Service:				
Water Purchases	368,000	368,000	361,961	6,039
Power	38,500	38,500	44,012	-5,512
Maintenance	55,000	55,000	33,120	21,880
Professional Services	54,000	54,000	59,500	-5,500
Accounting Services	53,000	53,000	57,113	-4,113
Engineering Services	64,000	64,000	53,352	10,648
General Insurance	15,220	15,220	16,377	-1,157
Telephone	5,300	5,300	5,053	247
Office Expense/Postage/Supplies	5,000	5,000	3,706	1,294
Dues and Subscriptions	2,500	2,500	2,533	-33
Elections and Publications	2,500	2,500	727	1,773
Miscellaneous	2,800	2,800	1,249	1,551
	<u>665,820</u>	<u>665,820</u>	<u>638,703</u>	<u>27,117</u>
Total Water Service	<u>665,820</u>	<u>665,820</u>	<u>638,703</u>	<u>27,117</u>
Operating Contingency	-	-	-	-
	<u>665,820</u>	<u>665,820</u>	<u>638,703</u>	<u>27,117</u>
Total Expenditures	<u>665,820</u>	<u>665,820</u>	<u>638,703</u>	<u>27,117</u>
Excess of Revenues Over, -Under Expenditures	<u>764,232</u>	<u>764,232</u>	<u>899,307</u>	<u>135,075</u>
Other Financing Sources, -Uses:				
Transfers Out	-500,000	-500,000	-500,000	-
	<u>-500,000</u>	<u>-500,000</u>	<u>-500,000</u>	<u>-</u>
Total Other Financing Sources, -Uses	<u>-500,000</u>	<u>-500,000</u>	<u>-500,000</u>	<u>-</u>
Net Change in Fund Balance	264,232	264,232	399,307	135,075
Beginning Fund Balance	1,624,986	1,624,986	1,515,596	-109,390
Ending Fund Balance	<u>\$ 1,889,218</u>	<u>\$ 1,889,218</u>	<u>\$ 1,914,903</u>	<u>\$ 25,685</u>

(1) Appropriation Level

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

**BALANCE SHEETS (NON-GAAP) BASIS
At June 30, 2023 and 2022**

SYSTEM IMPROVEMENT FUND

	<u>2023</u>	<u>2022</u>
ASSETS:		
Current:		
Cash	\$ 43,260	\$ 15,106
Investments	<u>2,519,356</u>	<u>2,066,824</u>
Total Assets	<u>\$ 2,562,616</u>	<u>\$ 2,081,930</u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts Payable	<u>\$ 9,192</u>	<u>\$ 4,326</u>
Fund Balances:		
Unrestricted	<u>2,553,424</u>	<u>2,077,604</u>
Total Liabilities and Fund Balances	<u>\$ 2,562,616</u>	<u>\$ 2,081,930</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, 2023**

SYSTEM IMPROVEMENT FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET POSITIVE -NEGATIVE</u>
REVENUES:				
Systems Development Fee	\$ -	\$ -	\$ 26,252	\$ 26,252
Interest	9,000	9,000	93,345	84,345
Total Revenues	<u>9,000</u>	<u>9,000</u>	<u>119,597</u>	<u>110,597</u>
EXPENDITURES:				
Upgrades:				
Capital Outlay	2,099,000	2,099,000	143,777	1,955,223
Total Upgrades	<u>2,099,000</u>	<u>2,099,000</u>	<u>143,777</u>	<u>1,955,223</u>
Operating Contingency	-	- (1)	-	-
Total Expenditures	<u>2,099,000</u>	<u>2,099,000</u>	<u>143,777</u>	<u>1,955,223</u>
Excess of Revenues Over, -Under Expenditures	<u>-2,090,000</u>	<u>-2,090,000</u>	<u>-24,180</u>	<u>2,065,820</u>
Other Financing Sources, -Uses:				
Transfers In	500,000	500,000	500,000	-
Total Other Financing Sources, -Uses	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Net Change in Fund Balance	-1,590,000	-1,590,000	475,820	2,065,820
Beginning Fund Balance	<u>1,756,925</u>	<u>1,756,925</u>	<u>2,077,604</u>	<u>320,679</u>
Ending Fund Balance	<u>\$ 166,925</u>	<u>\$ 166,925</u>	<u>\$ 2,553,424</u>	<u>\$ 2,386,499</u>

(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, 2023, and have issued our report thereon dated March 11, 2024. 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.

Kenneth Allen, CPA
Municipal Auditor
PAULY, ROGERS AND CO., P.C.