

Willamette Water Supply System Commission

A component unit of the Tualatin Valley Water District



Financial Statements

For the fiscal years ended June 30, 2023 and 2022

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
A component unit of the Tualatin Valley Water District
Beaverton, Oregon

Financial Statements and
Supplemental Information

Years Ended June 30, 2023 and 2022

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
Beaverton, Oregon

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WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

Board Members as of June 30, 2023

James Duggan, Chair
Commissioner, Tualatin Valley Water District

David Judah, Vice Chair
Commissioner, City of Hillsboro Utilities Commission

Allison Tivnon, Board Member
Councilor, City of Beaverton

Commission Address

Willamette Water Supply System Commission
c/o Tualatin Valley Water District
1850 SW 170th Avenue
Beaverton, OR 97003
Ph: (503) 848-3000

Report of Independent Auditors

The Board of Commissioners
Willamette Water Supply System Commission

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Willamette Water Supply System Commission (the “Commission”) which comprise the statements of net position as of June 30, 2023 and 2022 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Commission as of June 30, 2023 and 2022, and the respective changes in financial position and cash flows thereof 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 auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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 GAAS and *Government 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 financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission'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 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 Commission's basic financial statements. The revenues, expenditures, and changes in fund balance – budget and actual are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2023 on our consideration of Willamette Water Supply System Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Willamette Water Supply System Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Willamette Water Supply System Commission's internal control over financial reporting and compliance.

Other Reporting Required by Minimum Standards for Audits of Oregon Municipal Corporations

In accordance with the Minimum Standards for Auditors of Oregon Municipal Corporations, we have also issued our report dated November 30, 2023, on our consideration of the Commission's compliance with certain provisions of laws and regulations, including the provisions of the Oregon Revised Statutes as specified in Oregon Administrative Rules 162-010-0000 through 162-010-0330 of the Minimum Standards for Audits of Oregon Municipal Corporations. 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.



Julie Desimone, Partner for
Moss Adams LLP
Portland, Oregon
November 30, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

As management of the Willamette Water Supply System Commission (Commission), a joint venture of Tualatin Valley Water District (District) and the cities of Beaverton and Hillsboro, we offer readers of the Commission's financial statements this narrative overview and analysis of the Commission's financial activities for the fiscal years ended June 30, 2023 (FY2023) and June 30, 2022 (FY2022). The Commission, a Component Unit of the District, and was formed in July 2019 to own, operate, and maintain the Willamette Water Supply System (WWSS) to supply potable water to the District and cities of Beaverton and Hillsboro, and potentially, other municipal water providers.

These financial statements include this *Management's Discussion and Analysis* (MD&A) section to provide users of the basic financial statements with an overview and analysis of the statements.

Financial Highlights

- Net position (assets minus liabilities) was \$598.9 million and \$368.2 million at June 30, 2023 and June 30, 2022, respectively.
- Net investment in capital assets is the largest portion of the Commission's net position. Net investment in capital assets increased by \$197.9 million from FY2022 and \$292.4 million increase since FY2021.
- Capital Assets, non-depreciable, which is on-going construction in progress, increased by \$231.1 million from FY2022 and \$337.1 million increase from FY2021.

Overview of the Financial Statements

Taken together these sections provide a comprehensive financial look at the Commission. The individual components of the report include the following:

- **Management's Discussion and Analysis.** This section of the report provides an overview of financial highlights and economic factors affecting the Commission.
- **Basic Financial Statements.** This section includes *the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows, and Notes to Basic Financial Statements*. The statements focus on an entity-wide presentation using the accrual basis of accounting. They are designed to resemble more closely private-sector financial statements in that all activities are consolidated into a total for the Commission.
 - The *Statements of Net Position* focus on resources available for future operations. The statements present a snap-shot view of the assets of the Commission, its liabilities, and the net difference.
 - The *Statements of Revenues, Expenses and Changes in Net Position* focus on operating results and changes in capital for the two most recent fiscal years.

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
Beaverton, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

- The *Statements of Cash Flows* focus on how the Commission obtained and expended its available cash and investments.
- The *Notes to the Basic Financial Statements* provide additional disclosures required by generally accepted accounting principles that are essential to a full understanding of the information provided in the Basic Financial Statements.

Statements of Net Position

The Commission's change in assets exceeded liabilities by \$598.9 million. This amount reflects an increase of \$230.7 million or 62.7% from FY2022 and \$336.3 million increase since FY2021. Net investment in capital assets represents the largest portion of the Commission's net position at \$535.0 million, \$337.1 million, and \$242.6 million at June 30, 2023, June 30, 2022, and June 30, 2021, respectively. A condensed version of the statement of Net Position as of June 30, 2023, June 30, 2022, and June 30, 2021, are as follows:

Table 1

	2023	2022	2021	2023 -2022 Change	2023 -2021 Change
Cash and cash equivalents	\$ 9,024,120	\$ 4,559,104	\$ 2,844,135	\$ 4,465,016	\$ 6,179,985
Accounts receivable	54,597,959	26,461,231	15,846,730	28,136,728	38,751,229
Deposits and prepaid expenses	257,833	81,716	1,355,851	176,117	(1,098,018)
Leased assets, net of accumulated amortization	12,623,474	12,983,524	13,343,574	(360,050)	(720,100)
Capital assets, non-depreciable	601,287,833	370,191,904	264,230,942	231,095,929	337,056,891
Total Assets	677,791,219	414,277,479	297,621,232	263,513,740	380,169,987
Accounts and retainage payables	63,879,912	31,102,051	20,046,716	32,777,861	43,833,196
Lease liabilities	15,055,784	15,015,489	14,970,737	40,295	85,047
Total Liabilities	78,935,696	46,117,540	35,017,453	32,818,156	43,918,243
Net investment in capital assets	534,986,167	337,059,149	242,567,101	197,927,018	292,419,066
Unrestricted	63,869,356	31,100,790	20,036,678	32,768,566	43,832,678
Net Position	\$ 598,855,523	\$ 368,159,939	\$ 262,603,779	\$ 230,695,584	\$ 336,251,744

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
Beaverton, Oregon

MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

Statements of Revenues, Expenses and Changes in Net Position

A condensed version of the Commission’s Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2023, June 30, 2022, and June 30, 2021, are as follows:

Table 2

	2023	2022	2021	2023 -2022 Change	2023 -2021 Change
Operating Revenues	\$ 494,584	\$ 647,819	\$ 664,222	\$ (153,235)	\$ (169,638)
Operating expenses	622,764	312,009	1,024,272	310,755	(401,508)
Net Operating Income (Loss)	(128,180)	335,810	(360,050)	(463,990)	231,870
Non operating revenues (expenses)	496,051	492,235	488,655	3,816	7,396
Capital contributions	231,319,815	105,712,585	94,053,440	125,607,230	137,266,375
Change in Net Position	230,695,584	105,556,160	93,204,735	125,139,424	137,490,849
Net Position, beginning of period	368,159,939	262,603,779	169,399,044	105,556,160	198,760,895
Net Position, end of period	<u>\$ 598,855,523</u>	<u>\$ 368,159,939</u>	<u>\$ 262,603,779</u>	<u>\$ 230,695,584</u>	<u>\$ 336,251,744</u>

The operating expenses for the Commission’s activities totaled \$0.6 million, \$0.3 million, and \$1.0 million for the years ended June 30, 2023, June 30, 2022, and June 30, 2021, respectively, a 99.6% increase from FY2022 and a decrease of 39.2% from FY2021. In FY2022, the decrease in operating expenses was due to a change in the accounting for amortization expenses of the office lease asset. In prior years, the amortization expense for the office lease asset was recorded as an operating expense and in FY2022 the expense was moved to work in process. Operating expenses consist of administrative expenses and the amortization expense on the land lease asset. Nonoperating expenses consist mainly of interest expenses for the lease liabilities. Capital contributions consist of capital assets invested by the partners in the Commission.

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

Capital Assets

The Commission has net capital assets of approximately \$601.3 million and \$370.2 million as of June 30, 2023 and June 30, 2022, respectively. The Commission's capital assets include construction in progress of \$600.8 million and \$369.8 million as of June 30, 2023 and June 30, 2022, respectively, and \$0.4 million of non-depreciable easements as of June 30, 2023 and June 30, 2022. Construction in progress includes amortization expense on the office space lease.

Capital Assets, nondepreciable:	<u>2023</u>	<u>2022</u>
Construction in progress	\$ 600,848,188	\$ 369,752,259
Easements	439,645	439,645
Total Capital Assets, nondepreciable	<u>\$ 601,287,833</u>	<u>\$ 370,191,904</u>

Long-Term Debt Activity

The Commission reported lease liabilities of \$15.1 million as of June 30, 2023 and \$15.0 million as of June 30, 2022, respectively. The leases are for subsurface land for the placement of a raw water pipeline and office space. The Commission had no bonded indebtedness at June 30, 2023.

Economic Factors

The Commission was formed in July 2019 to provide a reliable water supply for the region by helping water system operators balance supply during times of drought or other supply interruptions, as well as recover more quickly after a large natural disaster. The District was appointed as the managing agency. Financial records are maintained by the District. Major goals of the Commission are to construct a new water filtration plant, more than 30 miles of water pipelines, and water storage tanks – all built to modern seismic standards. Construction of the WWSS infrastructure is anticipated to be completed by 2026.

Financial Contact

The Commission's financial statements are designed to present users including joint venturers, taxpayers, citizens, customers, investors, and creditors with a general overview of the Commission's finances and overall accountability. If you have questions about the contents of this report or need additional financial information, please contact the District's Chief Financial Officer at 1850 SW 170th Avenue, Beaverton, Oregon 97003.

BASIC FINANCIAL STATEMENTS

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

STATEMENTS OF NET POSITION**JUNE 30, 2023 AND 2022**

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 9,024,120	\$ 4,559,104
Accounts receivable	54,597,959	26,461,231
Prepaid expenses	228,697	54,279
Deposits	29,136	27,437
Total Current Assets	<u>63,879,912</u>	<u>31,102,051</u>
Leased assets, net of accumulated amortization	12,623,474	12,983,524
Capital assets, nondepreciable	601,287,833	370,191,904
Total Noncurrent Assets	<u>613,911,307</u>	<u>383,175,428</u>
Total Assets	677,791,219	414,277,479
LIABILITIES		
Accounts payable and accrued liabilities	54,855,792	26,542,947
Retainage payable	9,024,120	4,559,104
Total Current Liabilities	<u>63,879,912</u>	<u>31,102,051</u>
Lease liabilities	15,055,784	15,015,489
Total Liabilities	78,935,696	46,117,540
NET POSITION		
Net investment in capital assets	534,986,167	337,059,149
Unrestricted	63,869,356	31,100,790
Total Net Position	<u>\$ 598,855,523</u>	<u>\$ 368,159,939</u>

The accompanying notes are an integral part of the financial statements.

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Administrative services	\$ 494,584	\$ 647,819
OPERATING EXPENSES		
Administrative and Amortization	618,702	312,009
Utilities	4,062	-
Total Operating Expenses	<u>622,764</u>	<u>312,009</u>
Net Operating Income (Loss)	(128,180)	335,810
NONOPERATING REVENUES (EXPENSES)		
Other revenue	150	200
Interest expense	(496,201)	(492,435)
Total Nonoperating Expenses	<u>(496,051)</u>	<u>(492,235)</u>
LOSS BEFORE CONTRIBUTIONS	<u>(624,231)</u>	<u>(156,425)</u>
Capital contributions	<u>231,319,815</u>	<u>105,712,585</u>
Changes in Net Position	<u>230,695,584</u>	<u>105,556,160</u>
Net Position, beginning of period	<u>368,159,939</u>	<u>262,603,779</u>
Net Position, end of period	<u>\$ 598,855,523</u>	<u>\$ 368,159,939</u>

The accompanying notes are an integral part of the financial statements.

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Reimbursements from joint venturers	\$ 484,667	\$ 642,153
Payments to suppliers for goods and services	(659,856)	(632,980)
Net Cash Provided By Operating Activities	<u>(175,189)</u>	<u>9,173</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions from joint venturers	203,193,004	105,712,585
Capital outlay and purchases of capital assets	(198,097,043)	(103,559,306)
Proceeds from the sale of assets	-	-
Reimbursements from other agencies	150	200
Payments paid on leases	(455,906)	(447,683)
Net Cash Provided By Capital and Related Financing Activities	<u>4,640,205</u>	<u>1,705,796</u>
 Net Increase in Cash and Cash Equivalents	 4,465,016	 1,714,969
Cash and Cash Equivalents, beginning of year	<u>4,559,104</u>	<u>2,844,135</u>
Cash and Cash Equivalents, end of year	<u>\$ 9,024,120</u>	<u>\$ 4,559,104</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (128,180)	\$ 335,810
Adjustments to reconcile operating loss to net cash from operating activities:		
Amortization	128,030	(336,010)
Changes in operating accounts:		
Accounts receivable	(9,917)	(5,666)
Prepaid expenses	(174,418)	23,816
Accounts payable and accrued liabilities	9,296	(8,777)
Net Cash Provided By Operating Activities	<u>\$ (175,189)</u>	<u>\$ 9,173</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

**NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Commission was organized in July 2019 under Oregon Revised Statutes (ORS), chapter 190 and was established by an agreement of the Tualatin Valley Water District (District) and cities of Beaverton and Hillsboro. The Commission is managed by the District, and is governed by a three-member board, with one member appointed by each party. The purpose of the Commission is to provide the water supply system infrastructure beginning at the Willamette Intake Facilities (WIF) System separation point and continuing to the points of delivery (turnouts).

The District holds a majority equity interest in the Commission; therefore, the Commission is considered a component unit of the District.

Expenses are allocated using two formulas: one for administrative costs and the other for operating costs. Administrative costs are allocated to the parties based on two weighted factors, 25% based on equal shares and 75% based on ownership. The weighted allocations factors by party are:

Weighted Allocation Shares for Administrative Costs					
	Equal Share		Ownership		Total
Party	Unweighted	Weighted	Unweighted	Weighted	Weighted
TVWD	33.3%	8.3%	58.9%	44.2%	52.5%
Hillsboro	33.3%	8.3%	36.1%	27.1%	35.4%
Beaverton	33.3%	8.3%	5.0%	3.7%	12.1%
Total	<u>100.0%</u>	<u>25.0%</u>	<u>100.0%</u>	<u>75.0%</u>	<u>100.0%</u>
Weight		25.0%		75.0%	

Operations, maintenance, and repair expenses that are a result of use of the facilities are allocated based on each party's proportionate use of the WWSS. Operations, maintenance, and repair expenses unrelated to usage are allocated based on each party's proportionate Ownership of the WWSS. During this preoperational period, the Commission treats all costs as administrative, (excluding for amortization and interest expenses on the leases, which are allocated based on each party's proportionate capacity rights in the facilities associated with the lease).

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

Basis of Presentation and Accounting

For financial reporting purposes, the Commission reports its operations on an enterprise fund basis. Enterprise funds (a propriety fund type) are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities, and net position associated with the operations are included on the Statements of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in net position.

The accrual basis of accounting is used for financial reporting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Operating revenues result from providing services to the parties. All revenues not meeting this definition are reported as nonoperating revenues. Operating expenses are defined as those expenses directly related to providing services.

Use of Estimates

The preparation of basic 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 certain assets, liabilities, revenues, expenses, and other disclosures. Accordingly, actual results may differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Total net position was not affected by these reclassifications.

Cash and Cash Equivalents

Cash and investments of the Commission are part of a common cash and investment pool maintained for all funds managed by the District. The Commission considers these items to be demand deposit accounts, where funds may be deposited or withdrawn without prior notice or penalty.

Accounts Receivable

Accounts receivable are recorded as earned and no allowance for doubtful accounts is required as all receivables are due from the joint venturers.

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

Capital Assets

Capital assets are recorded at cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. All costs associated with the acquisition or construction of capital assets are contributed by the joint venturers.

The Commission defines capital assets as assets with an initial cost of \$7,500 and an estimated useful life of more than one year.

Leased Assets

Leased assets are reported at the initial measurement of the lease liability adjusted by initial direct costs and payments made to the lessor at the commencement of the lease, less any lease incentives. Leased assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset.

Net Position

The Commission's net position consists of the net earnings from operating revenues and expenses and contributions of capital. Net position is classified in the following two components: net investment in capital assets, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation, and capital-related liabilities. Unrestricted net position consists of all other net positions not included in other categories.

Lease Liabilities

Lease liabilities are initially measured at the present value of payments expected to be made during the lease term, including fixed and variable payments, residual guarantees, termination penalties, lease incentives and any other payments reasonably certain to be made in accordance with the lease agreement.

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

**NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022**

Budgets

The Commission is organized under ORS, Chapter 190 as an Intergovernmental Agreement (IGA). The IGA that forms the Commission requires the Board to adopt an annual work plan and budget. The Commission’s budget is prepared and legally adopted for the Commission as part of the total budget for the District. The budget is prepared on a biennial basis as a separate fund on the modified accrual basis of accounting and complies with Oregon Local Budget Law. The level of budgetary control is established at the object classifications (personnel services, materials and services, capital outlay, operating transfers, and contingency).

2. CAPITAL ASSETS

The Commission has invested approximately \$600.8 million and \$369.8 million in construction in progress as of June 30, 2023, and June 30, 2022, respectively, as well as \$0.4 million of easements as of June 30, 2023, and June 30, 2022.

	<u>Balance June 30, 2022</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Balance June 30, 2023</u>
Capital Assets, nondepreciable:					
Construction in progress	\$ 369,752,259	\$ 231,095,929	\$ -	\$ -	\$ 600,848,188
Easements	439,645	-	-	-	439,645
Total Capital Asset, nondepreciable	<u>\$ 370,191,904</u>	<u>\$ 231,095,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 601,287,833</u>

	<u>Balance June 30, 2021</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Balance June 30, 2022</u>
Capital Assets, nondepreciable:					
Construction in progress	\$ 263,791,297	\$ 105,960,962	\$ -	\$ -	\$ 369,752,259
Easements	439,645	-	-	-	439,645
Total Capital Asset, nondepreciable	<u>\$ 264,230,942</u>	<u>\$ 105,960,962</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 370,191,904</u>

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
Beaverton, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

3. LEASED ASSETS

Leased assets consisted of the following at June 30, 2023:

	Balance July 1, 2022	Additions	Disposals	Balance June 30, 2023
Leased assets				
Land and easements	\$ 12,290,852	\$ -	\$ -	\$ 12,290,852
Buildings	1,772,820	-	-	1,772,820
Total leased assets	14,063,672	-	-	14,063,672
Less accumulated amortization for				
Land and easements	(384,089)	(128,030)	-	(512,119)
Buildings	(696,059)	(232,020)	-	(928,079)
Total accumulated amortization	(1,080,148)	(360,050)	-	(1,440,198)
Total leased assets being amortized, net	<u>\$ 12,983,524</u>	<u>\$ (360,050)</u>	<u>\$ -</u>	<u>\$ 12,623,474</u>

Leased assets consisted of the following at June 30, 2022:

	Balance July 1, 2021	Additions	Disposals	Balance June 30, 2022
Leased assets				
Land and easements	\$ 12,290,852	\$ -	\$ -	\$ 12,290,852
Buildings	1,772,820	-	-	1,772,820
Total leased assets	14,063,672	-	-	14,063,672
Less accumulated amortization for				
Land and easements	(256,059)	(128,030)	-	(384,089)
Buildings	(464,039)	(232,020)	-	(696,059)
Total accumulated amortization	(720,098)	(360,050)	-	(1,080,148)
Total leased assets being amortized, net	<u>\$ 13,343,574</u>	<u>\$ (360,050)</u>	<u>\$ -</u>	<u>\$ 12,983,524</u>

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

**NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022**

4. LEASE LIABILITIES

The District and the City of Hillsboro entered into a lease for office space which was subsequently assigned to the Commission upon the Commission's formation. Base rent increases by 3% per annum. The lease terminates in 2027. Commission also pays variable costs based on operating expenses which are not included in the measurement of the lease liability. In fiscal years 2023 and 2022, variable payments totaled \$5,220 and \$5,185, respectively.

The District and the City of Hillsboro entered into a lease with the City of Wilsonville for subsurface land for the placement of a raw water pipeline in FY 2017. This lease was assigned to the Commission upon the Commission's formation. The lease terminates in 2115. Annual lease installments are payable through FY 2025 with a balloon payment in 2026. As the annual payments are less than the interest on the lease obligation, the liability will increase until FY 2026 when the balloon payment is made.

Principal and interest to maturity for the Commission's share of leases are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	(35,573)	499,949	464,376
2025	(30,578)	503,678	473,100
2026	(25,298)	507,383	482,085
2027	15,147,233	503,441	15,650,674
Total minimum lease payments	<u>\$ 15,055,784</u>	<u>\$ 2,014,451</u>	<u>\$ 17,070,235</u>

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
Beaverton, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

5. NET POSITION BY PARTNER

Changes in net position by partner for the years ending June 30, 2023, and June 30, 2022, are as follow:

Net Position	City of Beaverton	City of Hillsboro	Tualatin Valley Water District	Total
Balance June 30, 2021	\$ 14,534,955	\$ 103,638,897	\$ 144,429,927	\$ 262,603,779
Loss before contributions	(19,209)	(32,841)	(104,375)	(156,425)
Contributions	5,876,368	41,709,995	58,126,222	105,712,585
Balance June 30, 2022	\$ 20,392,114	\$ 145,316,051	\$ 202,451,774	\$ 368,159,939
Loss before contributions	(31,180)	(224,401)	(368,650)	(624,231)
Contributions	12,641,383	90,106,483	128,571,949	231,319,815
Balance June 30, 2023	<u>\$ 33,002,317</u>	<u>\$ 235,198,133</u>	<u>\$ 330,655,073</u>	<u>\$ 598,855,523</u>

Net investment in capital assets as of June 30, consists of the following:

	2023	2022
Capital assets, net	\$ 601,287,833	\$ 370,191,904
Leased assets, net	12,623,474	12,983,524
Less: lease liabilities	(15,055,784)	(15,015,489)
Less: retainage payable	(9,024,120)	(4,559,104)
Less: capital related accounts payable	(54,845,236)	(26,541,686)
 Net investment in capital assets	 <u>\$ 534,986,167</u>	 <u>\$ 337,059,149</u>

6. OTHER INFORMATION

Risk Management

The Commission is exposed to various risks of loss related to torts, theft, or damage to and destruction of assets, errors and omissions, and natural disasters for which the Commission carries commercial insurance. The Commission does not engage in risk financing activities where risk is retained (self-insurance).

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
Beaverton, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

Related-party Transactions

The Commission paid \$2.4 million in management fees for operations and construction in process for services provided by the District for years ended June 30, 2023, and June 30, 2022.

Administrative services revenue and contributions from partners were as follows for the years ended June 30:

	Administrative Service Revenue & Contributions	
	2023	2022
City of Beaverton	\$ 12,692,903	\$ 5,946,838
City of Hillsboro	90,296,988	41,939,430
Tualatin Valley Water District	128,824,508	58,474,136
Total from Venturers	\$ 231,814,399	\$ 106,360,404

Commitments

The Commission has entered into various contracts related to the construction of the WWSS. Total outstanding commitments on contracts with greater than \$1.0 million outstanding is approximately \$665.5 million, (\$59.0 million is for ancillary projects for the District and City of Beaverton) and \$622.9 million, (\$34.5 million is for ancillary projects for city of Beaverton and the District) as of June 30, 2022, respectively.

SUPPLEMENTAL INFORMATION

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2023**

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Administrative Services	\$ 1,297,410	\$ 1,297,410	\$ 494,584	\$ (802,826)
Other Revenue	-	-	150	150
Capital Contributions	372,643,578	372,643,578	231,319,815	(141,323,763)
Total Revenues	373,940,988	373,940,988	231,814,549	(142,126,439)
EXPENDITURES				
Materials and Services	1,197,410	1,197,410	494,734	(702,676)
Capital Outlay	372,643,578	372,643,578	231,319,815	(141,323,763)
Contingency	100,000	100,000	-	(100,000)
Total Expenditures	373,940,988	373,940,988	231,814,549	(142,126,439)
Excess (Deficiency) of revenues over expenditures, and net change in fund balance	-	-	-	-
Beginning Fund Balance	-	-	169,399,044	169,399,044
Ending Fund Balance	\$ -	\$ -	\$ 169,399,044	\$ 169,399,044
Reconciliation to Change in Net Position:				
Change in Fund Balance			\$ -	
Capital Outlay			231,319,815	
Amortization			(128,030)	
Interest expense			(496,201)	
Change in Net Position			\$ 230,695,584	

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2022**

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Administrative Services	\$ 1,391,666	\$ 1,391,666	\$ 647,819	\$ (743,847)
Other Revenue	-	-	200	200
Capital Contributions	176,355,996	176,355,996	105,712,585	(70,643,411)
Total Revenues	177,747,662	177,747,662	106,360,604	(71,387,058)
EXPENDITURES				
Materials and Services	1,265,666	1,265,666	648,019	(617,647)
Capital Outlay	176,355,996	176,355,996	105,712,585	(70,643,411)
Contingency	126,000	126,000	-	(126,000)
Total Expenditures	177,747,662	177,747,662	106,360,604	(71,387,058)
Excess (Deficiency) of revenues over expenditures, and net change in fund balance	-	-	-	-
Beginning Fund Balance	-	-	169,399,044	169,399,044
Ending Fund Balance	\$ -	\$ -	\$ 169,399,044	\$ 169,399,044
Reconciliation to Change in Net Position:				
Change in Fund Balance			\$ -	
Capital Outlay			105,712,585	
Amortization			336,010	
Interest expense			(492,435)	
Change in Net Position			\$ 105,556,160	

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Commissioners
Willamette Water Supply System Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Willamette Water Supply System Commission (the “Commission”) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Willamette Water Supply System Commission’s basic financial statements, and have issued our report thereon dated November 30, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Willamette Water Supply Commission’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Willamette Water Supply System Commission’s internal control. Accordingly, we do not express an opinion on the effectiveness of Willamette Water Supply System Commission’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Willamette Water Supply System Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julie Desimone, Partner for
Moss Adams LLP
Portland, Oregon
November 30, 2023

Report of Independent Auditors Required by Oregon State Regulations

Board of Commissioners
Willamette Water Supply System Commission

We have audited, in accordance with auditing standards generally accepted in the United States of America the financial statements of the Willamette Water Supply System Commission (the “Commission”) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Willamette Water Supply System Commission’s basic financial statements, and have issued our report thereon dated November 30, 2023.

Compliance

As part of obtaining reasonable assurance about whether the Commission’s basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules (OAR) 162-010-0000 to 162-010-0330, of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of 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:

- Accounting records and internal control
- Public fund deposits
- Insurance and fidelity bonds
- Budget
- Investments
- Public contracts and purchasing

In connection with our testing, nothing came to our attention that caused us to believe the Commission was not in substantial compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of ORS as specified in OAR 162-010-0000 through 162-010-0330 of the Minimum Standards for Audits of Oregon Municipal Corporations.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

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



Julie Desimone, Partner for
Moss Adams LLP
Portland, Oregon
November 30, 2023

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About the Willamette Water Supply System

The Tualatin Valley Water District and the Cities of Hillsboro and Beaverton are developing the Willamette river at Wilsonville as an additional water supply source.



TUALATIN VALLEY
WATER DISTRICT



The Willamette Water Supply System Commission is a partnership formed under ORS Chapter 190 of the following parties: Tualatin Valley Water District and the Cities of Hillsboro and Beaverton. For more information, visit www.tvwd.org/wwss.