

# Willamette Water Supply System Commission

A component unit of the Tualatin Valley Water District



## Financial Statements

For the fiscal years ended June 30, 2022 and 2021



**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, 2022 and 2021

**WILLAMETTE WATER SUPPLY SYSTEM COMMISSION**  
Beaverton, Oregon

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**WILLAMETTE WATER SUPPLY SYSTEM COMMISSION**  
Beaverton, Oregon

**Board Members as of June 30, 2022**

David Judah, Chair  
Commissioner, City of Hillsboro Utilities Commission

James Duggan, Vice Chair  
Commissioner, Tualatin Valley Water District

Marc San Soucie, 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, 2022 and 2021 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, 2022 and 2021, 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 December 2, 2022 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 December 2, 2022, 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.



Portland, Oregon  
December 2, 2022



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

# WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED JUNE 30, 2022 AND JUNE 30, 2021

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, 2022 (FY2022) and June 30, 2021 (FY2021). The Commission, a Component Unit of the District, and was formed in July 2019 to own, operate, and maintain the Willamette Water Supply System 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 \$368.2 million and \$262.6 million at June 30, 2022 and June 30, 2021, respectively.
- Net investment in capital assets is the largest portion of the Commission's net position. Net investment in capital assets increased by \$94.5 million from FY2021 and \$192.0 million increase since FY2020.
- Capital Assets, non-depreciable, which is mostly construction in progress, increased by \$106.0 million from FY2021 and \$203.8 million increase from FY2020.

### 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, 2022 AND JUNE 30, 2021**

- 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 \$368.2 million. This amount reflects an increase of \$105.6 million or 40.2% from FY2021 and \$198.8 million increase since FY2020. Net investment in capital assets represents the largest portion of the Commission’s net position at \$337.1 million and \$242.6 million at June 30, 2022 and June 30, 2021, respectively. A condensed version of the statement of Net Position as of June 30, 2022 and June 30, 2021, is as follows:

**Table 1**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2022 -2021</u> <u>Change</u>	<u>2022 -2020</u> <u>Change</u>
Cash and cash equivalents	\$ 4,559,104	\$ 2,844,135	\$ -	\$ 1,714,969	\$ 4,559,104
Accounts receivable	26,461,231	15,846,730	18,702,121	10,614,501	7,759,110
Deposits and prepaid expenses	81,716	1,355,851	1,376,753	(1,274,135)	(1,295,037)
Leased assets, net of accumulated amortization	12,983,524	13,343,574	13,703,624	(360,050)	(720,100)
Capital assets, non-depreciable	370,191,904	264,230,942	166,367,201	105,960,962	203,824,703
Asset held for sale	-	-	4,250,000	-	(4,250,000)
<b>Total Assets</b>	<b>414,277,479</b>	<b>297,621,232</b>	<b>204,399,699</b>	<b>116,656,247</b>	<b>209,877,780</b>
Accounts and retainage payables	31,102,051	20,046,716	20,078,874	11,055,335	11,023,177
Lease liabilities	15,015,489	14,970,737	14,921,781	44,752	93,708
<b>Total Liabilities</b>	<b>46,117,540</b>	<b>35,017,453</b>	<b>35,000,655</b>	<b>11,100,087</b>	<b>11,116,885</b>
Net investment in capital assets	337,059,149	242,567,101	145,089,853	94,492,048	191,969,296
Unrestricted	31,100,790	20,036,678	24,309,191	11,064,112	6,791,599
<b>Net Position</b>	<b>\$ 368,159,939</b>	<b>\$ 262,603,779</b>	<b>\$ 169,399,044</b>	<b>\$ 105,556,160</b>	<b>\$ 198,760,895</b>

**WILLAMETTE WATER SUPPLY SYSTEM COMMISSION**

Beaverton, Oregon

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2022 AND JUNE 30, 2021**

**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, 2022 and June 30, 2021, is as follows:

**Table 2**

	2022	2021	2020	2022 -2021 Change	2022 -2020 Change
Operating Revenues	\$ 647,819	\$ 664,222	\$ 518,361	\$ (16,403)	\$ 129,458
Operating expenses	312,009	1,024,272	878,409	(712,263)	(566,400)
Net Operating Income (Loss)	335,810	(360,050)	(360,048)	695,860	695,858
Non operating expenses	(492,235)	(488,655)	(436,073)	(3,580)	(56,162)
Capital contributions	105,712,585	94,053,440	170,195,165	11,659,145	(64,482,580)
Change in Net Position	105,556,160	93,204,735	169,399,044	12,351,425	(63,842,884)
Net Position, beginning of period	262,603,779	169,399,044	-	93,204,735	262,603,779
Net Position, end of period	<u>\$ 368,159,939</u>	<u>\$ 262,603,779</u>	<u>\$ 169,399,044</u>	<u>\$ 105,556,160</u>	<u>\$ 198,760,895</u>

The operating expenses for the Commission’s activities totaled \$0.3 million and \$1.0 million for the years ended June 30, 2022 and June 30, 2021, respectively, a 69.5% decrease from FY2021. 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 and capital contributions consist of capital assets invested by the partners in the Commission.

**Capital Assets**

The Commission has net capital assets of approximately \$370.2 million and \$264.2 million as of June 30, 2022 and June 30, 2021, respectively. The Commission’s capital assets include construction in progress of \$369.8 million and \$263.8 million as of June 30, 2022 and June 30, 2021, respectively, and \$0.4 million of non-depreciable easements as of June 30, 2022 and June 30, 2021. Construction in progress includes amortization expense on the office space lease.

Capital Assets, nondepreciable:	<u>2022</u>	<u>2021</u>
Construction in progress	\$ 369,752,259	\$ 263,791,297
Easements	439,645	439,645
Total Capital Assets, nondepreciable	<u>\$ 370,191,904</u>	<u>\$ 264,230,942</u>

# **WILLAMETTE WATER SUPPLY SYSTEM COMMISSION**

Beaverton, Oregon

## **MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED JUNE 30, 2022 AND JUNE 30, 2021**

### **Long-Term Debt Activity**

The Commission reported lease liabilities of \$15.0 million as of June 30, 2022 and June 30, 2021. 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, 2022.

### **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. Tualatin Valley Water District (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 Tualatin Valley Water 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, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,559,104	\$ 2,844,135
Accounts receivable	26,461,231	15,846,730
Prepaid expenses	54,279	1,328,414
Deposits	27,437	27,437
Total Current Assets	<u>31,102,051</u>	<u>20,046,716</u>
Leased assets, net of accumulated amortization	12,983,524	13,343,574
Capital assets, nondepreciable	370,191,904	264,230,942
Total Noncurrent Assets	<u>383,175,428</u>	<u>277,574,516</u>
Total Assets	414,277,479	297,621,232
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	26,542,947	17,202,581
Retainage payable	4,559,104	2,844,135
Total Current Liabilities	<u>31,102,051</u>	<u>20,046,716</u>
Lease liabilities	15,015,489	14,970,737
Total Liabilities	46,117,540	35,017,453
<b>NET POSITION</b>		
Net investment in capital assets	337,059,149	242,567,101
Unrestricted	31,100,790	20,036,678
Total Net Position	<u>\$ 368,159,939</u>	<u>\$ 262,603,779</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, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>OPERATING REVENUES</b>		
Administrative services	\$ 647,819	\$ 664,222
<b>OPERATING EXPENSES</b>		
Administrative and Amortization	<u>312,009</u>	<u>1,024,272</u>
Net Operating Income (Loss)	335,810	(360,050)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Other revenue	200	-
Interest expense	<u>(492,435)</u>	<u>(488,655)</u>
Total Nonoperating Expenses	<u>(492,235)</u>	<u>(488,655)</u>
<b>LOSS BEFORE CONTRIBUTIONS</b>	<u>(156,425)</u>	<u>(848,705)</u>
Capital contributions	<u>105,712,585</u>	<u>94,053,440</u>
Changes in Net Position	<u>105,556,160</u>	<u>93,204,735</u>
Net Position, beginning of period	<u>262,603,779</u>	<u>169,399,044</u>
Net Position, end of period	<u><u>\$ 368,159,939</u></u>	<u><u>\$ 262,603,779</u></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, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Reimbursements from joint venturers	\$ 642,153	\$ 686,274
Payments to suppliers for goods and services	<u>(632,980)</u>	<u>(643,320)</u>
Net Cash Provided By Operating Activities	9,173	42,954
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Contributions from joint venturers	105,712,585	94,053,440
Capital outlay and purchases of capital assets	<u>(103,559,306)</u>	<u>(93,882,731)</u>
Proceeds from the sale of assets	-	3,070,171
Reimbursements from other agencies	200	-
Payments paid on leases	<u>(447,683)</u>	<u>(439,699)</u>
Net Cash Provided By Capital and Related Financing Activities	1,705,796	2,801,181
 Net Increase in Cash and Cash Equivalents	1,714,969	2,844,135
 Cash and Cash Equivalents, beginning of year	<u>2,844,135</u>	<u>-</u>
 Cash and Cash Equivalents, end of year	<u>\$ 4,559,104</u>	<u>\$ 2,844,135</u>
 <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 335,810	\$ (360,050)
Adjustments to reconcile operating loss to net cash from operating activities:		
Amortization	(336,010)	360,050
Changes in operating accounts:		
Accounts receivable	(5,666)	22,052
Prepaid expenses	23,816	20,902
Accounts payable and accrued liabilities	<u>(8,777)</u>	<u>-</u>
 Net Cash Provided By Operating Activities	<u>\$ 9,173</u>	<u>\$ 42,954</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, 2022 AND JUNE 30, 2021

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

Willamette Water Supply System Commission (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. The Commission is reported as a custodial (fiduciary) fund of the District in its Annual Comprehensive Financial Report.

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					
Party	Equal Share		Ownership		Total
	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	100.0%	25.0%	100.0%	75.0%	100.0%
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, 2022 AND JUNE 30, 2021

### **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, 2022 AND JUNE 30, 2021

### **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.

The Commission defines a lease asset as those leases with an asset value greater than one percent of the Commission's total capital assets and an estimated useful life of more than one year.

### **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.

The Commission defines a lease liability as those leases with a liability value greater than five percent of the Commission's total liabilities and an estimated useful life of more than one year.



**WILLAMETTE WATER SUPPLY SYSTEM COMMISSION**

Beaverton, Oregon

**NOTES TO BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2022 AND JUNE 30, 2021**

**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 is accounted for as a fund within the structure of the District, where the 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 \$369.8 million and \$263.8 million in construction in progress as of June 30, 2022, and June 30, 2021, respectively, as well as \$0.4 million of easements as of June 30, 2022, and June 30, 2021.

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

	<b>Balance June 30, 2020</b>	<b>Additions</b>	<b>Transfers</b>	<b>Disposals</b>	<b>Balance June 30, 2021</b>
Capital Assets, nondepreciable:					
Construction in progress	\$ 165,927,556	\$ 97,863,741	\$ -	\$ -	\$ 263,791,297
Easements	439,645	-	-	-	439,645
<b>Total Capital Assets nondepreciable</b>	<b>166,367,201</b>	<b>97,863,741</b>	<b>-</b>	<b>-</b>	<b>264,230,942</b>

**WILLAMETTE WATER SUPPLY SYSTEM COMMISSION**  
Beaverton, Oregon

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2022 AND JUNE 30, 2021**

**3. LEASED ASSETS**

Leased assets consisted of the following at June 30, 2022, and June 30, 2021:

	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>

Leased assets consisted of the following at June 30, 2021, and June 30, 2020:

	Balance July 1, 2020	Additions	Disposals	Balance June 30, 2021
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	(128,029)	(128,030)	-	(256,059)
Buildings	(232,019)	(232,020)	-	(464,039)
Total accumulated amortization	(360,048)	(360,050)	-	(720,098)
Total leased assets being amortized, net	<u>\$ 13,703,624</u>	<u>\$ (360,050)</u>	<u>\$ -</u>	<u>\$ 13,343,574</u>

**WILLAMETTE WATER SUPPLY SYSTEM COMMISSION**

Beaverton, Oregon

**NOTES TO BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2022 AND JUNE 30, 2021**

**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 2022 and 2021, variable payments totaled \$5,185 and \$5,151, 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>
2023	\$ (40,295)	\$ 496,201	\$ 455,906
2024	(35,573)	499,949	464,376
2025	(30,579)	503,678	473,099
2026	(25,298)	507,383	482,085
2027	15,147,234	503,441	15,650,675
Total minimum lease payments	<u>\$ 15,015,489</u>	<u>\$ 2,510,652</u>	<u>\$ 17,526,141</u>

**WILLAMETTE WATER SUPPLY SYSTEM COMMISSION**  
Beaverton, Oregon

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2022 AND JUNE 30, 2021**

**5. NET POSITION BY PARTNER**

Changes in net position by partner for the years ending June 30, 2022, and June 30, 2021, is as follow:

<b>Net Position</b>	<b>City of Beaverton</b>	<b>City of Hillsboro</b>	<b>Tualatin Valley Water District</b>	<b>Total</b>
Loss before contributions	\$ (28,223)	\$ (309,630)	\$ (458,268)	\$ (796,121)
Contributions	<u>9,508,277</u>	<u>70,584,317</u>	<u>90,102,571</u>	<u>170,195,165</u>
<b>Balance June 30, 2020</b>	9,480,054	70,274,687	89,644,303	169,399,044
Loss before contributions	(42,350)	(306,298)	(500,057)	(848,705)
Contributions	<u>5,097,251</u>	<u>33,670,508</u>	<u>55,285,681</u>	<u>94,053,440</u>
<b>Balance June 30, 2021</b>	<u>\$ 14,534,955</u>	<u>\$ 103,638,897</u>	<u>\$ 144,429,927</u>	<u>\$ 262,603,779</u>
Loss before contributions	(19,209)	(32,841)	(104,375)	(156,425)
Contributions	<u>5,876,368</u>	<u>41,709,995</u>	<u>58,126,222</u>	<u>105,712,585</u>
<b>Balance June 30, 2022</b>	<u>\$ 20,392,114</u>	<u>\$ 145,316,051</u>	<u>\$ 202,451,774</u>	<u>\$ 368,159,939</u>

The \$464,043 loss before contributions adjustment is due to the office space lease being moved to work in process under capital assets.

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

	<b>2022</b>	<b>2021</b>
Capital assets, net	\$ 370,191,904	\$ 264,230,942
Leased assets, net	12,983,524	13,343,574
Less: lease liabilities	(15,015,489)	(14,970,737)
Less: retainage payable	(4,559,104)	(2,844,135)
Less: capital related accounts payable	<u>(26,541,686)</u>	<u>(17,192,543)</u>
<b>Net investment in capital assets</b>	<u>\$ 337,059,149</u>	<u>\$ 242,567,101</u>

**WILLAMETTE WATER SUPPLY SYSTEM COMMISSION**  
Beaverton, Oregon

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2022 AND JUNE 30, 2021**

**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).

**Related-party Transactions**

The Commission paid \$2.4 million and \$2.6 million in management fees for operations and construction in process for services provided by the District for years ended June 30, 2022, and June 30, 2021, respectively. Administrative services revenue and contributions from partners were as follows for the years ended June 30:

	<b>Administrative Service Revenue &amp; Contributions</b>	
	<b>2022</b>	<b>2021</b>
City of Beaverton	\$ 5,946,838	\$ 5,148,764
City of Hillsboro	41,939,430	33,908,349
Tualatin Valley Water District	58,474,136	55,660,549
Total from Venturers	<u>\$ 106,360,404</u>	<u>\$ 94,717,662</u>

**Commitments**

The Commission has entered into various contracts related to the construction of the Willamette Water Supply System (WWSS). Total outstanding commitments on contracts with greater than \$1.0 million outstanding is approximately \$622.9 million, (\$34.5 million is for ancillary projects for the District) and \$176 million, (\$67 million is for ancillary projects for city of Beaverton and the District) as of June 30, 2021, 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, 2022**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
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)
<b>EXPENDITURES</b>				
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	
Depreciation			336,010	
Interest expense			(492,435)	
Change in Net Position			\$ 105,556,160	



**WILLAMETTE WATER SUPPLY SYSTEM COMMISSION**

Beaverton, Oregon

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2021**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Administrative Services	\$ 888,555	\$ 888,555	\$ 664,222	\$ (224,333)
Capital Contributions	125,763,556	125,763,556	94,053,440	(31,710,116)
Total Revenues	126,652,111	126,652,111	94,717,662	(31,934,449)
<b>EXPENDITURES</b>				
Materials and Services	808,555	808,555	664,222	144,333
Capital Outlay	125,763,556	125,763,556	94,053,440	31,710,116
Contingency	80,000	80,000	-	80,000
Total Expenditures	126,652,111	126,652,111	94,717,662	31,934,449
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			94,053,440	
Depreciation			(360,050)	
Interest expense			(488,655)	
Change in Net Position			\$ 93,204,735	



## **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, 2022, 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 December 2, 2022.

### **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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Portland, Oregon  
December 2, 2022

## **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, 2022, 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 December 2, 2022.

### **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
- Indebtedness
- Budget
- Insurance and fidelity bonds
- Programs funded from outside sources
- 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  
December 2, 2022

# 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 WWSS 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](http://www.tvwd.org/wwss).