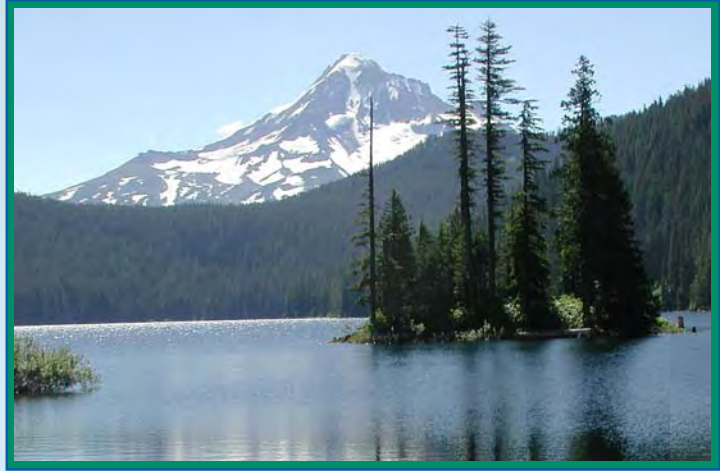


Comprehensive Annual Financial Report



**For the years ended
June 30, 2007 and 2006**

Tualatin Valley Water District



Washington County, Oregon

Tualatin Valley Water District



TUALATIN VALLEY WATER DISTRICT
Washington County, Oregon

Comprehensive Annual Financial Report
Years Ended June 30, 2007 and 2006

Prepared by
Financial Services Department

TUALATIN VALLEY WATER DISTRICT

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Tualatin Valley Water District



TUALATIN VALLEY WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2007

COMMISSIONERS AS OF JUNE 30, 2007

NAME

FOUR YEAR TERMS

Jim Doane, President
19155 SW Oak Street
Aloha, Oregon 97007

June 30, 2007

Richard Burke, Vice President
3280 SW 170th Ave, #614
Beaverton, Oregon 97006

June 30, 2007

Steve Pearson, Interim Member
8055 SW Barnes Road
Portland, Oregon 97225

June 30, 2007

James Duggan, Secretary
10655 SW Wedgewood Street
Portland, Oregon 97225

June 30, 2009

Dick Schmidt, Acting Secretary
5760 SW Rosa Place
Aloha, Oregon 97007

June 30, 2009

REGISTERED AGENT

Gregory E. DiLoreto, General Manager

REGISTERED OFFICE

1850 SW 170th Avenue
Beaverton, Oregon 97006

MANAGERIAL EMPLOYEES

Gregory E. DiLoreto, General Manager

Bernice Bagnall, Chief Financial Officer

Mark Knudson, PE, Chief Engineer

Brenda Lennox, Customer & Support Services

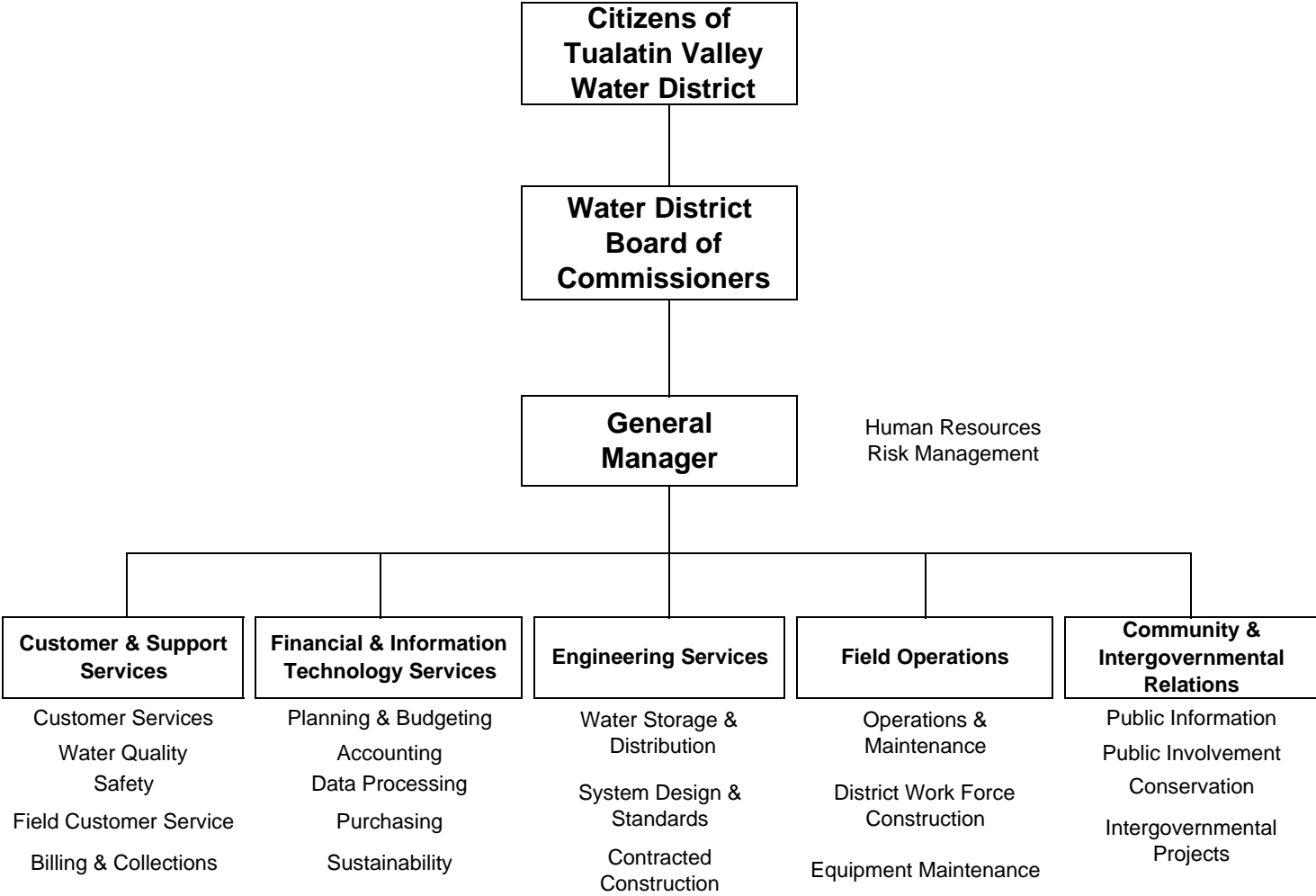
Dale Fishback, Field Operations

Todd Heidgerken, Community & Intergovernmental Relations

Debbie Erickson, Human Resources

TUALATIN VALLEY WATER DISTRICT

Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Tualatin Valley Water District, Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Tualatin Valley Water District





Gregory E. DiLoreto
General Manager

Bernice Bagnall
Chief Financial Officer

Debra Erickson
Manager, Human Resources

Dale Fishback
Manager, Operations & Field Services

Todd Heidgerken
Manager, Community & Intergovernmental Relations

Mark Knudson
Chief Engineer

Brenda Lennox
Manager, Customer & Support Services

December 19, 2007

TO: PRESIDENT BURKE AND THE BOARD OF COMMISSIONERS:

We respectfully submit the Tualatin Valley Water District (the District or TVWD) Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. This report was prepared by the District's Finance and Information Technology Department. The District is responsible for the representations contained herein. We believe the data presented to be accurate in all material aspects and that the manner of presentation fairly discloses the financial condition of the District as of June 30, 2007, and the results of operations for fiscal year 2006-07. An independent auditor report by Talbot, Korvola & Warwick (TKW) of the District's financial statements is a part of this Report.

Accounting Principles Generally Accepted in the United States of America (GAAP)

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the independent auditor's report on the financial statements.

This report is organized into four sections:

1. The Introductory section contains this letter of transmittal, commission and staff information, an organization chart, and the Government Finance Officers Association of the United States and Canada Financial Reporting Award.
2. The Financial section includes the financial statements, with the independent auditor's report, the MD&A, additional information for budgetary reporting and supplemental schedules.
3. The Statistical section contains several tables of unaudited data providing a 10-year background for the reader and other relevant information. This section has been updated to reflect District implementation of GASB Statement 44.
4. The Other Comments and Disclosures section contains reports from the independent auditors on various matters as required by state regulations.

Description of the Reporting Entity

The District was incorporated as Wolf Creek Highway Water District on December 29, 1938. In May 1991, the Metzger Water District, which was incorporated in 1924, was merged with Wolf Creek Highway Water District and, in June 1991, the District changed its name to Tualatin Valley Water District. The District is a domestic water supply district operating as authorized by Oregon Revised Statutes, chapter 264. The District is not a component of any other entity, as defined by the Governmental Accounting Standards Board.



A five member Board of Commissioners, elected at large to overlapping four-year terms, governs the District. The Commissioners set policy and appoint a General Manager, who is charged with management of the District.

TVWD is located west of the City of Portland, in suburban Washington County, Oregon. The District serves two large unincorporated areas and portions of the cities of Beaverton, Hillsboro and Tigard. As of June 30, 2007, TVWD served 56,621 connections and an estimated 193,400 people.

The population of the District is less than the previous year estimate due to de-annexations of portions of the District to the City of Hillsboro as provided for in the Intergovernmental Agreement with the City, as well as an updated population study completed for the District by the Portland State University Population Research Center during the summer of 2007. However, population growth in the District remains steady averaging about 1.6% annually over the past 5 years.

Located in northwestern Oregon, Washington County is one of the counties that comprise the Portland Metropolitan Statistical Area (the "PMSA"). The early economy of the Washington County area grew as a result of fertile agricultural and timberlands and its access to the Willamette and Columbia rivers. The area began developing as a suburb of Portland, but has since developed its own economic base, which includes high technology firms and retail trade and distribution.

In June 2007 the District adopted a Biennial Budget for fiscal years 2007-2008 and 2008-2009. The 2007 - 2009 biennial budget appropriation totaled over \$153 million for all funds. TVWD's primary operating revenue source is from the sale of water, which is estimated to generate \$58 million during the next biennium.

The District enters the first year of the 2007-2009 biennium with combined cash reserves and investments of \$68.9 million. This figure includes \$11.9 million in contingency reserves, \$2.0 million for rate stabilization, as well as other reserves for working capital and capital replacement. In addition, the District is deliberately retaining a high level of reserves in anticipation of significant investments in a future water supply source during the next two to seven years.

TVWD is organized into five departments and the Office of the General Manager. The five departments include Customer and Support Services, Engineering Services, Finance and Information Technology Services, Field Operations and Office of Community and Intergovernmental Relations. During the first year of the 2007-2009 biennium, TVWD has a total of 111.5 budgeted employee positions.

The reporting entity maintains a separate fund for Group 4 Utility and Municipal Data Systems (Group 4), an internal service fund; and Willamette River Water Coalition (WRWC), a joint venture.

As of June 30, 2007, Group 4 provided data processing system analysis and programming for four local government agencies in northwest Oregon including TVWD. However, as planned, the governing board of Group 4 took action to dissolve the partnership; the dissolution became effective for all members on October 1, 2007. Statements of Revenues, Expenditures and Transfers for Group 4 are contained in the financial section of this report.

WRWC is an ORS 190 organization consisting of six local government agencies, including TVWD, created to maintain and, when needed, develop water rights on the Willamette River for local and regional needs. As of July 1, 2005, financial statements for the WRWC are prepared and audited as a separate entity. TVWD's Financial Statements reflect the District's ownership share of the Joint Venture.

The mission of TVWD is simple and straightforward: *To provide our community quality water and customer service.*

**Goals adopted by TVWD's Board of Commissioners
FY 2006– 2007**

Communications. Provide high quality, timely and accurate internal and external communications between service providers and customers that communicate the value of the service that the District provides.

Enhanced Infrastructure Management. Provide safe, reliable, efficient water system infrastructure serving the current and future needs of the District.

Financial Stability. Provide financial management and systems that will insure the ability of the District to meet its current and future obligations while minimizing the impact on its customers.

Hiring and Retaining Employees. Provide human resource management that result in the recruitment, hiring, skill development and retention of high quality employees that meet current and future requirements of the District. Develop and implement a work force strategy that retains critical District knowledge, and plans for the departure of employees in critical areas.

Sustainability. Provide District services in a manner that minimizes negative impact to the environment, maximizes community benefit, and ensures long-term economic stability for the District and ratepayers. Collaborate with other water districts and government agencies to increase sustainability awareness and influence.

Conservation. Provide water conservation and demand management programs that result in an average reduction of annual per capita water usage of 0.8% per year for five years.

Water Supply. Acquire high quality water supplies that meet the future requirements of the District while minimizing the cost of such supplies.

Water System and Future Supply

TVWD has two primary sources of water supply that together provide 8.0 to 9.0 billion gallons of water annually. The first is the City of Portland's water system, comprised of the Bull Run watershed and Columbia South Shore wellfield. The District currently purchases about 53% of its annual supply needs from the City through a wholesale agreement. Effective July 1, 2006, TVWD entered into a new Intergovernmental Agreement with the City of Portland which assures water supplies until June 30, 2016.

A second source providing water to the District is the Joint Water Commission (JWC) with water supplies from the Tualatin and Trask River watersheds. The JWC is a consortium of TVWD and the cities of Hillsboro, Forest Grove, Beaverton, and Tigard, who manage water supplies and own and operate water treatment and transmission facilities. Currently, about 47% of the District's annual supplies come from JWC sources.

In addition to these primary sources of supply, TVWD has a 130 million gallons per day (MGD) permitted water right on the Willamette River as a potential future source, and owns a portion of the Willamette River Water Treatment Plant (WRWTP) located in Wilsonville. In June 2007, TVWD assigned its 130 MGD water right on the Willamette River to the WRWC. Also in June 2007, the Oregon Water Resources Department issued the Final Order extending WRWC's Willamette River Water Right Permit until October 1, 2047.

TVWD maintains three back-up (standby) wells that can provide two MGD when needed. In addition, in FY 2006 TVWD initiated the construction of an Aquifer Storage and Recovery (ASR) well that will provide an additional potential storage of 300 MG for summer peak season supply and emergency use. The ASR well is expected to be operational for the 2008 summer season.

The District's transmission and distribution system totals 753 miles in length, and ranges from 2 to 60 inches in diameter. The District's distribution system contains a total of 24 covered reservoirs and 11 pumping stations. All major pumping facilities and reservoirs are fully equipped with Supervisory Control and Data Acquisition (SCADA) controls.

Members of the JWC and other water users in the Tualatin Basin, including the Tualatin Valley Irrigation District, are continuing work on joint projects to create additional water supply available in 2016. The District is involved with this effort to meet its long-term water supply needs; the effort is timed to coincide with the first ending date of the Portland contract. A comprehensive analysis is underway to evaluate the feasibility of raising the dam at Hagg Lake and construct or expand other facilities to meet the water supply needs of all of the partners involved in this effort. In April 2007, the TVWD Board made a "presumptive selection" of the Hagg Lake dam raise project, pending the results of the study. TVWD's share of the total project could be more than \$350 million depending upon the number of partners involved and the quantity of water the District requests. A final Board decision on the District's future water supply source is anticipated in December 2007.

While analysis of the Board's "presumptive selection" to develop the District's future water supply at Hagg Lake in partnership with other water providers in the Tualatin Basin continues into FY 2008, during the last fiscal year TVWD completed its master plan for expansion of the WRWTP, and preliminary engineering to determine the alignment of a pipeline, required storage facilities and related costs that would be necessary to connect the District's distribution system with the WRWTP.

Also during FY 2007, the District substantially completed an update to its 2000 Master Plan in conformance with state regulatory requirements. Key objectives of this effort include updating the District's population projections and demand forecasts; documenting and identifying water distribution system improvements; evaluating future long-term water supply sources as described above; and recommending a capital improvement plan to implement and prioritize the Master Plan's recommended water system improvements. The 2007 Master Plan update also focuses on other areas of importance to TVWD including a condition assessment of critical District operational assets, required system improvements and the feasibility to supply the West Slope Water District following expiration of that district's current water supply agreement with the City of Portland, and options to supply water to the City of Portland in the event of an emergency.

In conjunction with the Master Plan Update, in FY 2007 the District substantially completed its Water Management and Conservation Plan (WMCP) as required by the state. The WMCP covers elements such as a description of the District and its water rights, as well as the District's plans for water conservation, water curtailment and supply. The WMCP is awaiting review by the Oregon Water Resources Department. Approval by Water Resources Department and the District Board is anticipated during FY 2008.

Economic Conditions and Outlook

Almost all TVWD operating revenues are from the sale of water to residential, commercial and industrial customers. Water sales are dependent on (1) the District's residential population and its growth, (2) economic conditions that affect production and growth by commercial and industrial customers (3) weather conditions as they affect the need for landscape irrigation and (4) District water conservation efforts, which are described further in "Water Conservation and Sustainability".

Washington County's population in June 2007 was estimated to be 524,554 or about 13.9% of the population of Oregon. The County's population grew at a rate almost double the growth in population for Oregon (12.2% compared to 6.4%) during the five-year period ending July 1, 2005. Real estate market value in Washington County was nearly \$69.9 billion in FY 2007, an increase of more than \$27 billion since FY 2002. The number of housing units in Washington County increased 9.5% from July, 2000 to July, 2005, 37% more quickly than the number of units in Oregon as a whole.

As Washington County has grown, so has the demand for water services provided by TVWD. As shown in Figure 1, the total number of water meters serving the District's customers increased 10% over the five-year period ending FY 2007. In FY 2007, the District added 1,261 new meters, an increase of 2.3% over FY 2006.

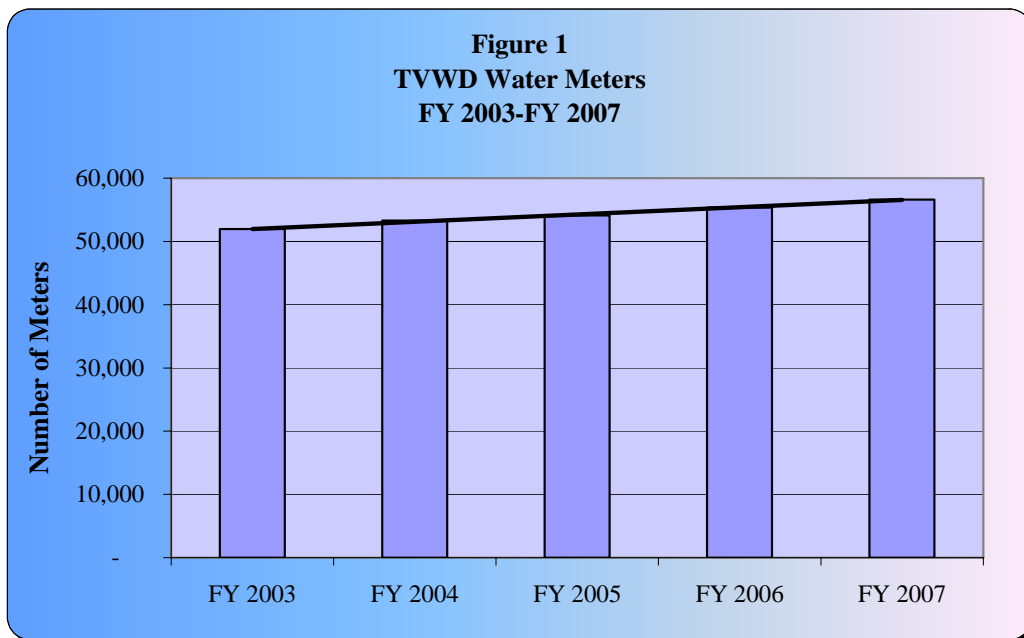
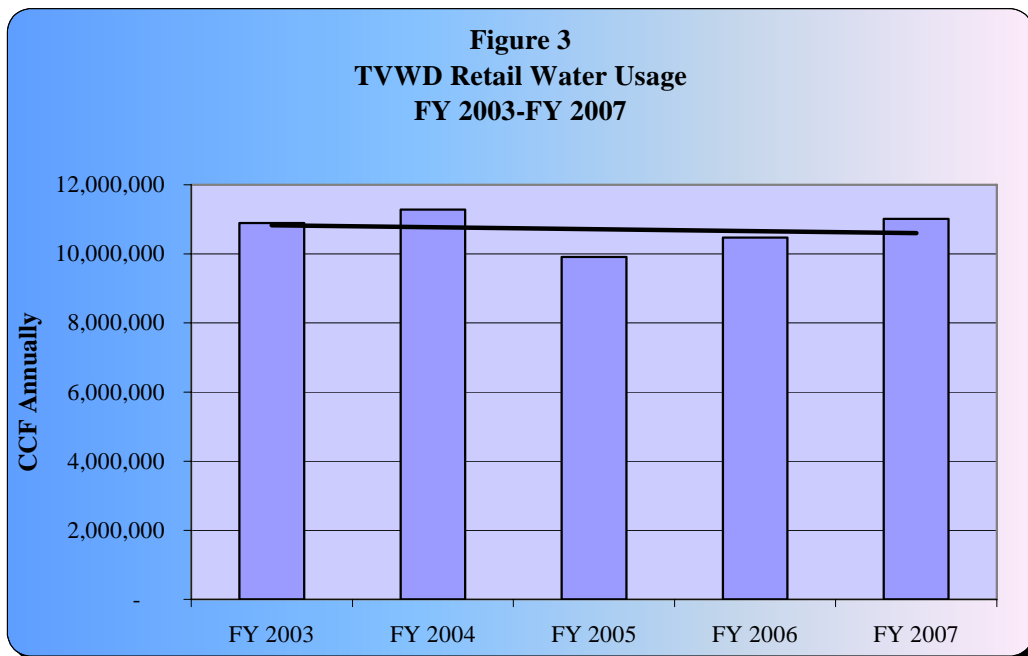


Figure 2 is a listing of the District’s ten largest customers in FY 2007, their water usage (in CCF) during 2007 and their water usage as a percent of total customer usage in the District. Of the total 56,621 retail meters in the District, 1,465 are meters servicing commercial and industrial production customers. Along with irrigation purchasers, these non-residential customers as a whole used 3.20 million CCF. In comparison with FY 2006, water usage by these customers increased by 9.37%, and represents 29.1% of all water sold to customers during FY 2007.

**Figure 2
Largest TVWD Customers
FY 2007**

| <u>CONSUMER</u> | <u>Consumption (CCF)</u> | <u>Percent of Total District Usage</u> |
|---------------------------------|--------------------------------|--|
| Maxim Integrated Products Inc | 267,916 | 2.43% |
| Intel Oregon | 166,489 | 1.51% |
| Providence Health Systems | 151,011 | 1.37% |
| NIKE | 123,648 | 1.12% |
| Heritage Vellage Mobile Park | 100,363 | 0.91% |
| Resers Fine Foods | 100,346 | 0.91% |
| Tualatin Hills Park & Rec Dist. | 96,912 | 0.88% |
| Tektronix | 65,820 | 0.60% |
| Simpson Property Group | 51,321 | 0.47% |
| Panzer Nursery | 47,495 | 0.43% |
| | <u>1,171,321</u> | <u>10.64%</u> |

Figure 3 below shows annual retail water usage over the past five years. During FY 2007, TVWD sold approximately 11.01 million CCF (1 CCF equals 100 cubic feet or 748 gallons) of water, a 3.5% increase from the preceding five-year average of 10.64 million CCF. Water usage has increased about 5.4% annually since the unusually cool and rainy weather of the 2005 spring and summer season, but the overall five-year trend remains relatively flat.



In FY 2007, operating revenues increased 6.2% or about \$1.7 million over FY 2007 due primarily to an increase in water rates, averaging 5.0% effective November 1, 2006, and the increase in customer water usage. Although population and business growth in the District have continued over the past five years at a steady pace of 2.4% annually based on new meter sales, most of the year-to-year variation shown in water usage in Figure 3 is due to weather conditions as they impact outdoor water usage.

Because of a stable local economy, consistent growth in TVWD's customer base coupled with the impact of weather conditions, the District's financial forecast continues to conservatively assume new customers will be added to the system at an average rate of between 1.2%-1.4% annually for the next five years. However, the District also anticipates that future water sales will continue to be influenced (both up and down) by weather conditions and has provided financial reserves to mitigate adverse impacts from these normal variations. In addition, the District closely monitors water sales and periodically updates year-end financial forecasts so that the District's expenditures or revenues can be adjusted if necessary. Finally, water usage projections take into account the District's enhanced Conservation Program, which began in FY 2005, to help customers reduce per capita water consumption by 0.8% per year for five years.

FY 2007 in Review

During FY 2007 the District was engaged in a number of programs and projects focused on maintaining and improving services to customers and ensuring adequate future water supplies. The following are brief descriptions of significant activities that are underway.

1. **Securing Long-Term Water Supplies.** One of the TVWD's primary goals is to acquire high quality and reliable water supplies to meet the future needs of the District for the next 50 years. The Board is expected to make its future supply decision in December 2007. As described earlier in this Transmittal Letter during FY 2007 TVWD was engaged in the following activities in connection with that goal:
 - a. Continuing work and analysis of the District's April 2007 "presumptive selection" of the Hagg Lake dam raise project for its future water supply in partnership with other water providers in the Tualatin Basin.
 - b. Substantial completion of the District's 2007 Master Plan Update, and WMCP.
 - c. Completion of the District's master plan for expansion of the WRWTP, and preliminary engineering to determine the alignment of a pipeline, required storage facilities and related costs that would be necessary to connect the District's distribution system with the WRWTP.
 - d. Assignment of the District's 130 MGD water right permit on the Willamette River to the WRWC until October 2047.
2. **District Engineering Design and Construction Activity.** In addition to the significant work on future water supply, the District engaged in a number of water system design and construction projects during FY 2007. These projects and their status are listed below:
 - a. **JWC Fernhill Reservoirs.** Construction of a new JWC Fernhill 20 MG reservoir No. 2, seismic upgrades to the existing Fernhill reservoir and piping connections to the existing finished water pipe line. These projects were completed in FY 2007.

- b. Grabhorn Aquifer Storage and Recovery (ASR) Well Development. Construction of improvements to the existing Grabhorn Well that will enable the District to inject and recover finished water for peak season and emergency use was substantially completed during FY 2007 and will provide the District with an additional potential 300 MG of storage capacity. Testing of the new well is ongoing and the ASR is anticipated to be operational for the summer 2008 peak-use water season.
 - c. Teufel Reservoir Replacement. Design engineering for a new 2.0 MG reservoir that will replace the existing 0.75 MG Teufel Reservoir was completed in FY 2007. Construction of the replacement reservoir will begin during FY 2008 and will provide increased capacity to meet existing and future demand in the reservoir's service area.
 - d. SW Oleson Road 16" Main Replacement. Design was completed and an agreement reached with Washington County in conjunction with the joint construction of a replacement main and roadway improvements in the vicinity of SW Oleson Road. When complete in early FY 2008, the new main will provide increased capacity to meet existing and future demand in the distribution service area.
 - e. Development and Board adoption of the District's 2007-09 and five-year Capital Improvement program in conjunction with the 2007 Master Plan Update. The District has budgeted \$35.9 million for water supply, storage, distribution and related projects for system expansion, upgrades and infrastructure replacements over the next two fiscal years.
3. Water Conservation and Sustainability.
- a. Water Conservation. The District continued aggressively with its low-water-use residential rebate programs. This includes rebates for water efficient washing machines, dishwashers, and toilets; landscape rebate programs and a new residential Weather Based Irrigation rebate. TVWD also partnered with The Energy Trust of Oregon to begin offering a free home water assessment in conjunction with the home energy reviews the Trust currently conducts. Staff continues to work on innovative ways to market water conservation such as toilet roundups, workshops and pilot programs to test new technology.

In response to the Board's desire for a more aggressive and comprehensive conservation program, staff has continued to develop conservation programs as they relate to the District's Business, Industry and Government (BIG) customers. TVWD offers an incentive program to encourage BIG customers to reduce water use both indoors and in their landscaping. Indoor incentives include providing low-flow showerheads and faucet aerators to customers that participate in the toilet/flush-valve rebate, as well as general indoor water use assessments. Landscape irrigation assessments assist TVWD customers to maximize the efficiency of irrigation systems by making recommendations and providing incentives that encourage the implementation of the latest best management practices and tools for irrigation control.

Many of the District's communication tools used to promote conservation – the Annual Report, Kid's Conservation Calendar, BIG newsletter and *Water Words* newsletter – continue to be produced. Student participation in District educational programs given at area elementary schools continues to increase.

- b. Sustainability. During FY 2007, TVWD continued its focus on improving the sustainability of District operations. The Sustainability Steering Committee completed a Backcasting and Visioning process that culminated in an updated Strategic Sustainability Plan and Report. In addition to providing a plan for how TVWD will drive and respond to environmental and social change, this report showcased the myriad of actions the District currently takes to reduce its negative impact on the earth, and increase its positive impact on the community and economy.

Sustainability staff made ten presentations during the year, reaching approximately 400 people with the District's achievements, aspirations, and inspiration. With the help of a Mt. Hood Community College film class, TVWD staff produced a DVD and Handbook entitled, *Take the Next Step: TVWD's Journey toward Sustainability*. The DVD and handbook provide a basic understanding of Sustainability and the steps TVWD has taken so far along its journey. Over 500 copies of this DVD have been distributed free to individuals and organizations throughout the Portland metropolitan region and beyond.

3. Increasing Operating Efficiency.

- a. Information Systems Strategic Planning. The District is engaged in a process to replace legacy financial systems (e.g., HR, payroll, inventory, general ledger, purchasing, and job cost tracking), and assessing other ancillary data processing and/or data management operations, including GIS and GPS. The legacy systems will be replaced via packaged software, third party vendors or custom in-house design and development over the next two to three years.
- b. Replacement of the District's COBOL based utility billing system to a MS.net platform and SQL server database. The new billing system "went live" in February 2007, and is proving to be both more robust and more versatile than the prior system. Utility billing is the District's largest and most mission-critical system – replacement was critically needed to embrace new technology, provide ongoing on-line customer payment options, and allow financial data from the billing system to be integrated or shared as needed with other systems, including partner agencies for which the District performs contract billing.
- c. Energy Costs and Conservation. Through behavioral changes and hardware support such as motion sensors and a programmable HVAC system, energy costs at TVWD's headquarters building are holding steady after the 2004 building expansion at \$.09/sq. ft., equaling the average cost per sq. ft. for the four years before the project. Unit energy costs rose almost 82% in that time period. Costs were stabilized by decreased electricity usage, which dropped over 25% after the expansion. In late 2006, the District also completed its fleet conversion to B20 biodiesel, a blend of 80% petroleum diesel and 20% Biodiesel.

4. Workforce Planning. In view of the District's goal of Hiring and Retaining Employees a workforce planning study was completed in FY 2007; to capture the staff knowledge of mission-critical operations and systems, and to begin succession planning for the eventual retirement of employees in key positions. The District began implementing the results of that study in FY 2008 through a combination of training, cross-training, knowledge transfer, procedure documentation, and individual development plans for staff who desire to prepare themselves for upcoming opportunities created by retirements and growth.

5. **Public Safety Planning.** Several projects in the Capital Improvement Plan address public safety issues, including reducing the vulnerability of concrete reservoirs, and increasing the seismic stability of steel tanks and providing security upgrades at District facilities. The District continues to take a lead role in managing vulnerability assessment studies for the members of the Joint Water Commission. TVWD is in the process of reviewing and developing a more complete disaster recovery plan for the District. This plan should be complete in 2008.
6. **Legislative Affairs.** The District's Office of Community and Intergovernmental Relations (OCIR) Manager is Chair of the Special Districts Association of Oregon (SDAO) Legislative Committee and Past Chair of the Oregon Water Utility Council (OWUC). TVWD works through other organizations to help set legislative priorities and keep abreast of legislation that affects the District. TVWD again anticipates actively monitoring such legislation during the 2008 Oregon Legislative Session.
7. **Financial Activity.** The District maintains and updates long-term financial planning models, develops a biennial budget and six-year capital improvement program, maintains a financial reporting system, procures financing, manages debt and investments, conducts cost-of-service studies, and annually adjusts its schedule of rates and charges. Highlights of the District's financial activities during FY 2007 include the following:
 - a. **Financial Planning and Budget Activity.** During FY 2007 the budget for the 2007-2009 biennium was developed and adopted. Because the District operates on a self-sustaining basis, the budget process always begins with an update of the long-term financial forecast for the utility. The forecast incorporates updated capital improvement plans, economic assumptions, and revenue estimates. It is within this 20-50 year framework that targets are set for the operating and capital budgets – targets which provide funding for needed system enhancements as well as operations and maintenance (O&M) activities, but which also serve to constrain budget increases and keep rate increases as low and predictable as possible. Operating and capital budget requests were all considered in the context of the long-term plan to be sure that anticipated revenue streams will cover costs. Significant changes that were incorporated into the financial forecast and the supporting budget are as follows:
 - i. **Reductions in population growth.** A population study conducted as part of the master planning effort revealed that growth rates are anticipated to fall from 2.4% per year to 1.2% in future years. This will affect both water sales and system development charge (SDC) revenues. Rate increases can be enacted as necessary to cover operating costs, but the financial plan had to be adjusted to reflect a drop in SDC revenues from \$6 million per year to \$3 million per year.
 - ii. **Reductions in employee benefits costs.** The District paid off its unfunded actuarial liability for pensions in FY 2006, which results in continued significant reduction in payroll costs. Public Employee Retirement System payments fell from 10% to 4.08% of payroll. In addition, implementation of an HRA/VEBA-type plan has resulted in a reduction in overall benefits costs of about \$100,000.
 - iii. **Significant increases in capital costs.** Updated estimates related to water supply expansion and improvements were incorporated into the six-year CIP; and in turn the first two years of the CIP were incorporated into the biennial budget.

- b. **Water Rate Adjustment.** During FY 2007, the District entered its second year under a restructured rate design. The primary goals of the restructuring were to reduce fixed charges to reflect savings in fixed costs, and to raise usage charges in such a way as to provide a conservation price signal to customers whose water use is heavier than the average for their class. As a result of this change, water revenues are more dependent than previously on changes in the weather and in the magnitude of “conservation response” from customers. Rates were increased 5% on November 1, 2006 to recognize slowing growth, lower summer water usage, and the need to preserve purchasing power in preparation for the coming supply expansion capital expenses. Another 5% rate increase went into effect on November 1, 2007.
- c. **Purchased Water Costs.** The recent re-negotiation of TVWD’s intergovernmental water supply agreement with the JWC continues to provide enhanced benefits. A key provision requires leasing arrangements between partners so that excess capacity is shared before new capacity is built. The District has been able to lease 6 MGD under this provision, which has saved between \$500,000 and \$700,000 per year in purchased water costs. Water purchased from the JWC (exclusive of capital costs) is approximately one-third of the cost of Portland Bull Run water, so the District has sought to lease as much as possible for as long as possible.
- d. **Sale of Fixed Assets.** In early 2007 the District sold to the City of Sherwood for \$6.96 million an undivided interest in five million gallons per day (MGD) capacity of the District’s investment in joint facilities at the Willamette River Water Treatment Plant.
- e. **Supply Alternatives Economic Analysis.** Together with a financial consulting firm, District staff developed an analytical model that allows comparisons and economic evaluations of four major water supply alternatives with up to eight regional partners. This tool, used in conjunction with TVWD’s 50 year financial forecast, provides key information to the Board, management, and customers regarding the financial implications of the choices they face for future water supply expansion.

Financial Information

1. Controls.

- a. **Internal Controls.** The District maintains a system of internal accounting controls that is reviewed annually by management. The controls are designed to safeguard District assets and ensure accurate recording of transactions. New controls are evaluated to assure that their value exceeds their cost prior to implementation.
- b. **Purchasing Controls.** The District’s Local Contract Review Board Rules were amended in March 2005 to reflect new changes in Oregon’s Public Procurement Statute, ORS 279. These rules are amended as needed to keep up with current developments and changes in statutory requirements. The District’s Purchasing Agent also reviews all check requests, purchase requisitions, receipts and invoices for goods and services to ensure compliance with the District’s rules and ORS 279.
- c. **Budgetary Controls.** The District maintains its accounting records by fund. The funds are described in the Notes to Basic Financial Statements. A budget is prepared biennially, by fund, to control its operations. During the budget process, a six-year capital improvement program is brought up to date. The first two years of the six-year capital improvement program are included in the biennial budget.

In the budget process, a proposed budget is brought to the Budget Committee at an advertised public meeting for the Committee's review and approval. The Budget Committee consists of the Board of Commissioners and five Board appointees. When the Budget committee has approved a budget, a financial summary is prepared and published in a newspaper of general circulation in the District. Also published is a notice of public hearing stating the time when the Board of Commissioners will consider the budget and take further public testimony prior to adoption. The Board adopts the budget resolution, making appropriations by major functional categories for all funds. Appropriations lapse at the end of the last day (June 30th) of the budget period. Further discussion of the budget process and budgetary constraints may be found in the Notes to Basic Financial Statements. Monthly and year-to-date reports comparing actual expenditures to the budget are prepared for management, appointed members of the Budget Committee, and the TVWD Board.

A comparison of FY 2006 and FY 2007 actual revenues and expenditures for the 2005-07 Biennial Budget period for each fund may be found in the budgetary basis schedules in the financial section.

2. **FY 2007 Financial Operating Results.** A discussion of the FY 2007 operating results, changes in net assets and debt activity is contained in the MD&A in the Financial Section of this report.
3. **Cash Management.** The District reviews its bank account balances daily and invests funds not needed for immediate operations in investments authorized by Oregon statute and within guidelines established by the Board. Pursuant to ORS 294.135, the Oregon Short Term Fund Board reviewed the District Investment Policy on March 22, 2005. The investment policy was then adopted and is reviewed annually by the District Board of Commissioners. The District Investment Officer is constrained by the policy and by ORS 294.035 and ORS 294.040 in selections for the investment portfolio by maturities, security instruments, and issuing institutions. Authorized instruments include the Oregon State Local Government Investment Pool, US Treasury Obligations, US Government Agency Securities, Bankers Acceptances, Repurchase Agreements, Certificates of Deposit, Commercial Paper and Corporate Notes.

The District contracts with Davidson Fixed Income Management to provide non-discretionary investment services to the District. The District investment policy is adhered to by Davidson when advising District management on investment opportunities and portfolio management.

4. **Risk Management.** The District maintains ongoing safety programs and insurance coverage for all foreseeable categories of significant financial loss. An employee Safety Committee meets monthly and safety programs for all employees are conducted on a frequent basis. Experts from other organizations are recruited to make presentations at safety meetings and all-employee programs. All insurance coverage is reviewed annually. The District does not self-insure for major liability risk.

Independent Audit

Oregon Revised Statutes require that the accounts and fiscal affairs of each municipal corporation be audited at least once each fiscal year by a certified public accountant. In FY 2006 the District through an open public process selected a new independent auditing firm to audit the District's accounts and fiscal affairs through FY 2008. The independent auditor's opinion without qualification is included in the financial section of this report. The opinion attests that the financial statements present fairly, in all material respects, the financial position of Tualatin Valley Water District as of June 30, 2007, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

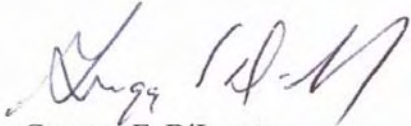
Awards

1. Comprehensive Annual Financial Report. The Government Finance Officers Association of the United States and Canada (“GFOA”) awarded a Certificate of Achievement for Excellence in Financial Reporting to TVWD for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This is the seventeenth consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year. TVWD management believes the current comprehensive annual financial report continues to conform to the Certificate of Achievement program requirements, and will again submit it to the GFOA to determine its eligibility for another certificate.
2. Biennial Budget. GFOA presented an award for Distinguished Budget Presentation to TVWD for its 2005 – 2007 Biennial Budget. In order to receive this award, a government must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications device. The award is valid for the two-year period covered by the budget. The District has submitted its 2007-2009 Biennial Budget to GFOA for consideration again for this award.
3. Sustainability Awards. The City of Portland awarded TVWD the prestigious 2007 BEST (Businesses for an Environmentally Sustainable Tomorrow) Award for sustainable practices for a medium sized company. In 2007, TVWD was again accepted into the Leadership Club of the Environmental Protection Agency’s Green Power Partnership for its distinction in offsetting 100% of District electricity usage with Green Tag purchases. In addition, The Eco-Logical Business Program evaluated and certified the District’s fleet operations as an Eco-Logical Business, utilizing best practices in the automotive field.
4. Safety Awards. In late 2006, TVWD graduated from the Safety and Health Achievement Recognition Program (SHARP) program. SHARP recognizes small employers who operate an exemplary safety and health management system. TVWD is one of few public entities to be recognized by the SHARP program, and one of the first public entities to graduate from the program. Acceptance into SHARP by OSHA is an achievement of status that singles the District out as a model for worksite safety and health. Because of TVWD’s SHARP recognition, the District’s worksite is exempt from programmed inspections as long as the SHARP certification is valid.
5. Communications Awards. TVWD was awarded the Pacific Northwest Section of the American Water Works Association’s Excellence in Communications Award for its Kids’ Conservation Calendar, Annual Report, and *Take the Next Step: TVWD’s Journey toward Sustainability* DVD. The Conservation Calendar contest has TVWD-area elementary school students draw pictures depicting a water conservation theme, which this year was “Water Colors the World.” The purpose of the *Take the Next Step* video is to show the interrelationships of the sustainably-oriented actions TVWD takes and to point out that any action, large or small, makes a positive difference.
6. TVWD employees received a number of awards and recognition from professional and industry organizations during FY 2007. In addition, a number of District employees serve on committees and as officers of national and international professional and industry organizations.

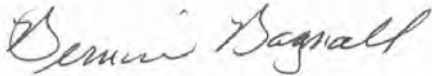
Acknowledgements

We wish to thank the accounting and management staff for their efforts toward the preparation of this report and for their service throughout the year. We also want to thank you, the members of the Board of Commissioners, for your interest and continuing support in planning and conducting the financial operations of the District in a responsible and progressive manner.

Respectfully,



Gregory E. DiLoreto
General Manager



Bernice Bagnall
Chief Financial Officer

TKW*Talbot, Korvola & Warwick* [LLP]
*Certified Public Accountants & Consultants*4800 S.W. Macadam, Suite 400 • Portland, Oregon 97239-3973
503/274-2849 • Fax 503/274-2853**INDEPENDENT AUDITOR'S REPORT**

December 11, 2007

Board of Commissioners
Tualatin Valley Water District
Beaverton, Oregon

We have audited the accompanying basic financial statements of Tualatin Valley Water District (the District), Washington County, Oregon, as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis as listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of District management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

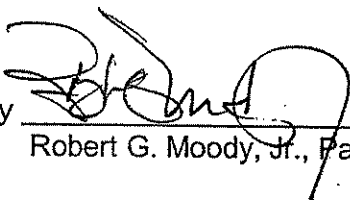
Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The Budgetary Basis Schedules and Supplemental Information, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT (Continued)

Board of Commissioners
Tualatin Valley Water District
December 11, 2007
Page 2

The accompanying Introductory and Statistical sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By 

Robert G. Moody, Jr., Partner

**Tualatin Valley Water District
Management Discussion and Analysis (MD&A)
FY 2007**

The following is the Tualatin Valley Water District (TVWD) Management's narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. Readers should consider the information presented here in conjunction with the financial statements in the Financial Section and additional information in Management's letter of transmittal of this report.

Financial Highlights

- Total assets of the District were \$262,172,362 and include capital assets of \$139,543,625; investments in joint ventures of \$48,553,271 and current restricted and unrestricted assets totaling \$74,075,466.
- TVWD assets exceeded its liabilities on June 30, 2007 by \$241,509,961 (net assets). Of this amount, \$94,322,181 (unrestricted net assets), includes \$46,504,814 in cash and investments, may be used to meet the District's ongoing obligations.
- The unrestricted net assets amount includes investment in joint ventures of \$48,553,271.
- Capital assets less related debt are \$124,278,536. Long term liabilities total \$14,390,000 and have been reduced 8.4% since FY 2006.
- Net disposal of capital assets increased significantly in FY 2007 to \$6,809,396 from \$325,807 in FY 2006. Of the FY 2007 figure, \$6,805,501 consists of the book value of the sale to the City of Sherwood of an undivided interest in five million gallons per day (MGD) capacity of the District's investment in joint facilities at the Willamette River Water Treatment Plant.
- The District's net assets increased by \$13,603,982 in FY 2007.
- Operating revenues for FY 2007 were \$28,353,563, which is an increase of 6.2% from the prior year. This is largely due to an increase in outdoor water usage because of a return to more normal warm, dry summer weather patterns in the region and an overall increase in water rates of 5.0%.
- Total operating expenses for FY 2007 were \$24,196,430 and 6.4% more than operating expenses for the previous year. Increases in operating expenses can be attributed to an 8.6% increase in FY 2007 water purchase costs, and a 9.6% increase in labor and benefits, which primarily reflects across the board salary adjustments resulting from a comprehensive salary study that brought District salaries up to current labor market levels. Operations and maintenance expenses remained relatively flat with a 1% increase over the prior fiscal year.
- Total net nonoperating revenue increased 89.8% to \$1,675,742 from the previous year primarily due to a significant increase in interest earnings of \$976,563; increasing 46%, as well as the sale of capital assets net of depreciation.

- The District's Operating Income of \$4,157,133 for FY 2007 was about \$200,000 more than FY 2006, an increase of 5.0%.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Tualatin Valley Water District's basic financial statements. The District is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The District's basic financial statements are comprised of four components; 1) Statements of Net Assets, 2) Statements of Revenues, Expenses and Changes in Net Assets, 3) Statements of Cash Flows and 4) Notes to Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Statements of Net Assets presents the current and long-term portions of assets and liabilities separately and may provide a useful indicator of whether the financial position of the District is improving or deteriorating over time. This statement includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statements of Revenues, Expenses and Changes in Net Assets present information showing profitability and credit worthiness as well as how the District's net assets changed during the most recent fiscal year. This statement shows income and expenses from operations, nonoperating revenues and expenses, and reconciles the change from one fiscal year to the next. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

The Statements of Cash Flow is prepared using the direct method and is concerned solely with input and outlay of cash from operating activities, non-capital financing activities, capital and related financing activities and investing activities. This statement also includes a reconciliation to the Statements of Revenues, Expenses and Changes in Net Assets. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. It answers such questions as where did the cash come from, what was the cash used for and what was the change in cash balance during the reporting period.

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

Financial Analysis

Net Assets

As noted on the previous page, net assets may serve over time as a useful indicator of the District's financial position. As shown in Table 1, TVWD's assets exceeded liabilities by \$241.5 million on June 30, 2007 and reflect an increase of \$13.6 million or 6.0% over the District's net assets at the close of FY 2006.

Investments in capital assets are by far the largest portion of the District's net assets (\$124.3 million or 51.5% of total net assets) and reflect its investment in land, buildings, equipment, reservoirs and pipelines, less related outstanding debt used to acquire those assets. The District uses these capital assets to provide water services to ratepayers; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from services to customers (ratepayers) or other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Table 1
Net Assets

| | <u>2007</u> | <u>2006</u> | <u>Difference 2006-2007</u> | <u>Percent Change</u> | <u>2005 As Restated</u> |
|---|-----------------------|-----------------------|---------------------------------|---------------------------|-----------------------------|
| Current Assets | \$ 51,113,602 | \$ 40,158,806 | \$ 10,954,796 | 27.3% | \$ 32,948,622 |
| Restricted Assets | 22,961,864 | 21,575,844 | 1,386,020 | 6.4% | 21,001,782 |
| Investments in Joint Ventures | 48,553,271 | 48,307,129 | 246,142 | 0.5% | 44,958,245 |
| Capital Assets | <u>139,543,625</u> | <u>140,980,641</u> | <u>(1,437,016)</u> | -1.0% | <u>140,214,371</u> |
| Total Assets | 262,172,362 | 251,022,420 | 11,149,942 | 4.4% | 239,123,020 |
| Long Term Liabilities | 14,390,000 | 15,705,000 | (1,315,000) | -8.4% | 16,795,000 |
| Current Liabilities Payable from Current Assets | 4,904,781 | 6,080,432 | (1,175,651) | -19.3% | 4,653,281 |
| Current Liabilities Payable from Restricted Assets | <u>1,367,620</u> | <u>1,331,009</u> | <u>36,611</u> | 2.8% | <u>2,160,377</u> |
| Total Liabilities | 20,662,401 | 23,116,441 | (2,454,040) | -10.6% | 23,608,658 |
| Investment in Capital Assets ⁽¹⁾ | 124,278,536 | 124,522,938 | (244,402) | -0.2% | 121,594,065 |
| Restricted Net Assets | 22,909,244 | 21,519,835 | 1,389,409 | 6.5% | 20,871,405 |
| Unrestricted Net Assets | <u>94,322,181</u> | <u>81,863,206</u> | <u>12,458,975</u> | 15.2% | <u>73,048,892</u> |
| Total Net Assets | <u>\$ 241,509,961</u> | <u>\$ 227,905,979</u> | <u>\$ 13,603,982</u> | 6.0% | <u>\$ 215,514,362</u> |

(1) Net of related debt

A portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. These assets totaled \$22.9 million at year end and consist of funds dedicated to specific purposes, e.g., capital construction and debt repayment. The remaining balance of the District's net assets (\$94.3 million) is unrestricted and includes \$46.5 million in cash and investments that may be used to meet the District's ongoing obligations to ratepayers and creditors. Of the total unrestricted assets \$48.6 million is invested in joint ventures, comprised of the Joint Water

Commission, Barney Reservoir Joint Ownership Commission and the Willamette River Water Coalition.

Change in Net Assets

As shown in Table 2, the District's operating, nonoperating, and capital activities increased net assets by \$13.6 million, or 6.0% more from FY 2006. Net assets for the District continue to increase steadily. FY 2007, for example, shows a two-year increase in value in net assets of 12.1%. The District's increase in net assets is due to the combined changes of the following major components:

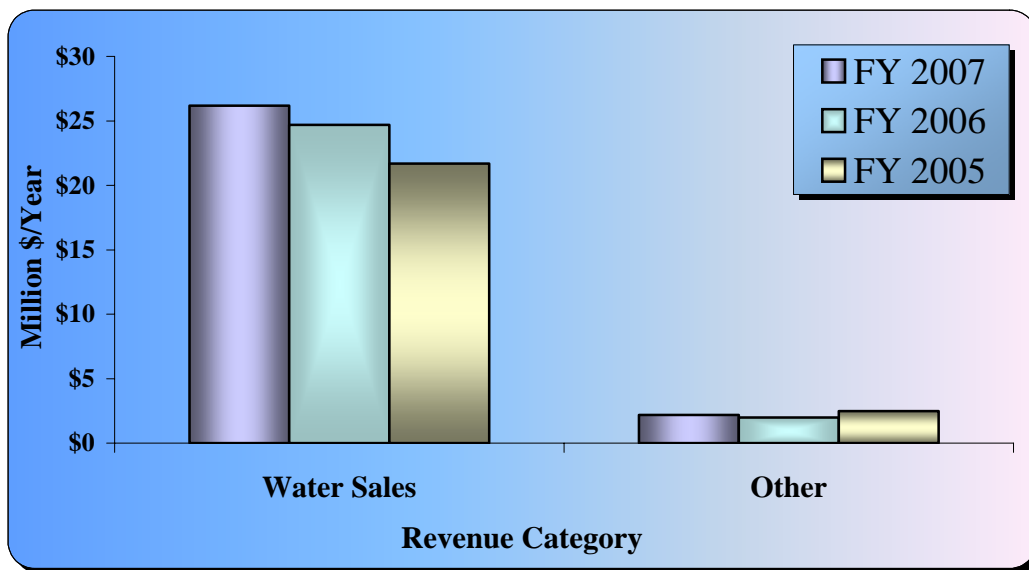
- The District produced \$28.4 million in operating revenue, an increase over FY 2006 of \$1.7 million or about 6.2%
- Operating expenses net of capitalized overhead and equipment usage increased by about 6.4% from \$22.7 million in FY 2006 to \$24.2 million this fiscal year.
- Total nonoperating revenues (expenses) of \$1,675,742 increased 89.8% over total nonoperating revenues (expenses) produced in FY 2006 primarily due a significant increase in interest earnings.
- Contributions of capital increased slightly from \$7.6 million in FY 2006 to \$7.8 million in FY 2007, a 2.9% increase.

Table 2
Change in Net Assets

| | <u>2007</u> | <u>2006</u> | <u>Difference 2006-2007</u> | <u>Percent Change</u> | <u>2005 As Restated</u> |
|--|-----------------------|----------------------|---------------------------------|---------------------------|-----------------------------|
| OPERATING REVENUES | | | | | |
| Water and Other Services | \$ 28,353,563 | \$ 26,692,372 | \$ 1,661,191 | 6.2% | \$ 24,163,408 |
| OPERATING EXPENSES | | | | | |
| Water purchased | 8,102,706 | 7,461,408 | 641,298 | 8.6% | 9,501,982 |
| Labor and Fringes | 9,073,313 | 8,278,086 | 795,227 | 9.6% | 9,054,198 |
| Operations & Maintenance | 3,857,336 | 3,820,303 | 37,033 | 1.0% | 4,109,628 |
| Depreciation Expense | 4,053,165 | 4,119,392 | (66,227) | -1.6% | 3,863,292 |
| Less overhead & equipment usage expenses capitalized to water distribution system | (890,090) | (944,138) | 54,048 | -5.7% | (554,562) |
| <i>Total Operating Expense</i> | <u>24,196,430</u> | <u>22,735,051</u> | <u>1,461,379</u> | 6.4% | <u>25,974,538</u> |
| OPERATING INCOME (LOSS) | 4,157,133 | 3,957,321 | 199,812 | 5.0% | (1,811,130) |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Property taxes | 5,907 | 34,898 | (28,991) | -83.1% | 812,770 |
| Miscellaneous & Other Income (Expense) | (132,281) | 29,337 | (161,618) | -550.9% | 23,745 |
| Loss in equity in Joint Venture | (655,769) | (630,621) | (25,148) | 4.0% | (490,179) |
| Interest income | 3,103,972 | 2,127,409 | 976,563 | 45.9% | 1,121,940 |
| Interest expense | (812,971) | (744,411) | (68,560) | 9.2% | (1,079,697) |
| Sale of capital assets, net | 166,884 | 66,162 | 100,722 | 152.2% | (29,713) |
| <i>Total Nonoperating Revenues (Expenses)</i> | <u>1,675,742</u> | <u>882,774</u> | <u>792,968</u> | 89.8% | <u>358,867</u> |
| CAPITAL CONTRIBUTIONS | <u>7,771,107</u> | <u>7,551,522</u> | <u>219,585</u> | 2.9% | <u>8,664,378</u> |
| CHANGES IN NET ASSETS | 13,603,982 | 12,391,617 | 1,212,365 | 9.8% | 7,212,115 |
| NET ASSETS, Beginning of year | <u>227,905,979</u> | <u>215,514,362</u> | <u>12,391,617</u> | 5.7% | <u>208,302,247</u> |
| NET ASSETS, End of year | <u>\$ 241,509,961</u> | <u>\$227,905,979</u> | <u>\$13,603,982</u> | 6.0% | <u>\$215,514,362</u> |

Operating Revenues. Operating revenues increased 6.2% or about \$1.7 million due to an increase in water rates and an increase in customer water usage during the fiscal year. During the year, the volume of water sold by the District increased 6.0% due to a return to more normal warm and dry summer in 2006 resulting in an increase in outdoor water usage. Revenues also increased due to a 5.0% overall increase in water rates implemented by the Board in November, 2006. Water revenues continue to remain somewhat elastic due to weather conditions and the resulting outdoor water use, as well as ongoing water conservation efforts. In this light, District staff continues to be conservative in its water usage projections. The financial plans for the District project a smooth trajectory of water rate increases in order to provide financial stability, as well as predictability for District customers. Figure 1 displays a three-year comparison for District operating revenue.

**Figure 1
Operating Revenue Comparison
FY 2007 - 2005**

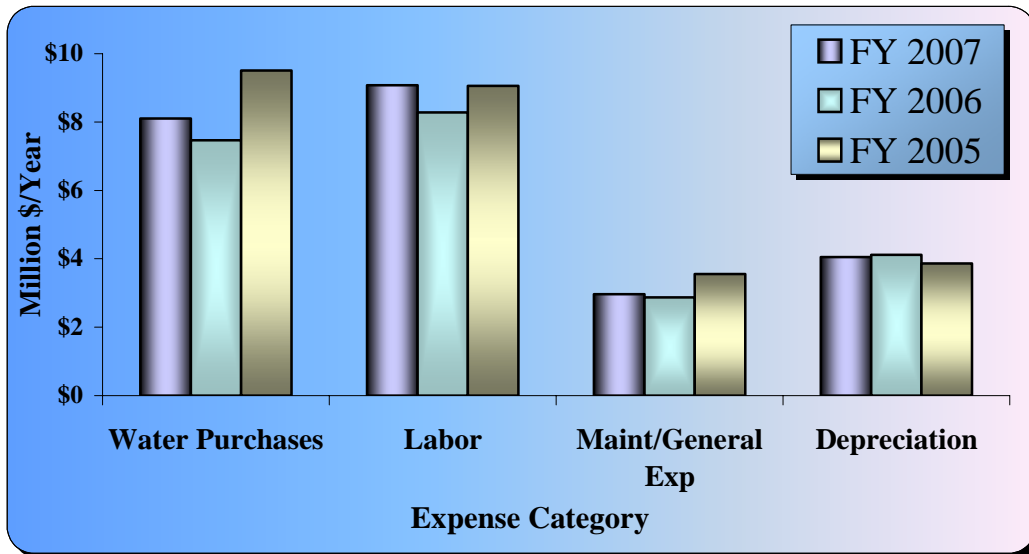


Operating Expenses. Operating expenses increased 6.4% or \$1.5 million during FY 2007. This increase can be primarily attributed to the following changes:

- The total cost of water purchased by the District increased about \$641,000 or 8.6% when compared with FY 2006. Commodity purchases for water increased 2.0%, which reflected both a slight increase in outdoor water usage due to a drier year, and new customer growth in the District. Customers served as measured by meter installations increased 3.2% in FY 2007. In addition, water purchase costs were higher for the District in FY 2007 due to treatment plant improvements at the Joint Water Commission, and the “take or pay” requirements of the District’s 10-year wholesale water purchase agreement with the City of Portland. Under this provision the District is obligated to purchase a minimum of 13.2 million gallons per day (MGD) averaged over each fiscal year. It should be noted, however, water purchase costs in FY 2007 were still lower by \$1.4 million from FY 2005 due to a variety of efforts including reductions in the District’s minimum purchase obligations under its prior agreement with the City of Portland, completion of contract payments for the use of the Washington County Supply Line, which connects the District to Portland’s Bull Run system, and conservation efforts. Gallons per capita per day (GPCPD) in FY 2007 averaged about 111, well below the District’s benchmark of 131 GPCPD.

- Labor and benefits increased by a net \$795,000 or 9.6% during the fiscal year. The District completed a comprehensive salary study in 2006 with across-the-board salary adjustments effective July 1, 2007. This action brought District staff salaries up to competitive labor market levels. This change, combined with the addition of two full time employees in 2006-2007 biennium budget and a 5% increase in health care benefit costs resulted in the net increase in overall costs. Other operations and maintenance expenses remained relatively flat with a 1.0% overall increase in FY 2007.
- Depreciation Expense decreased 1.6% or \$66,000 reflecting the disposal of fixed assets. Capitalized overhead and equipment usage decreased 5.7% or \$54,000 reflecting a slightly higher level of operations and maintenance activity versus internal staff work on capital projects. Figure 2 displays a three-year comparison for District operating expenses.

**Figure 2
Operating Expense Comparison
FY 2007 - 2005**



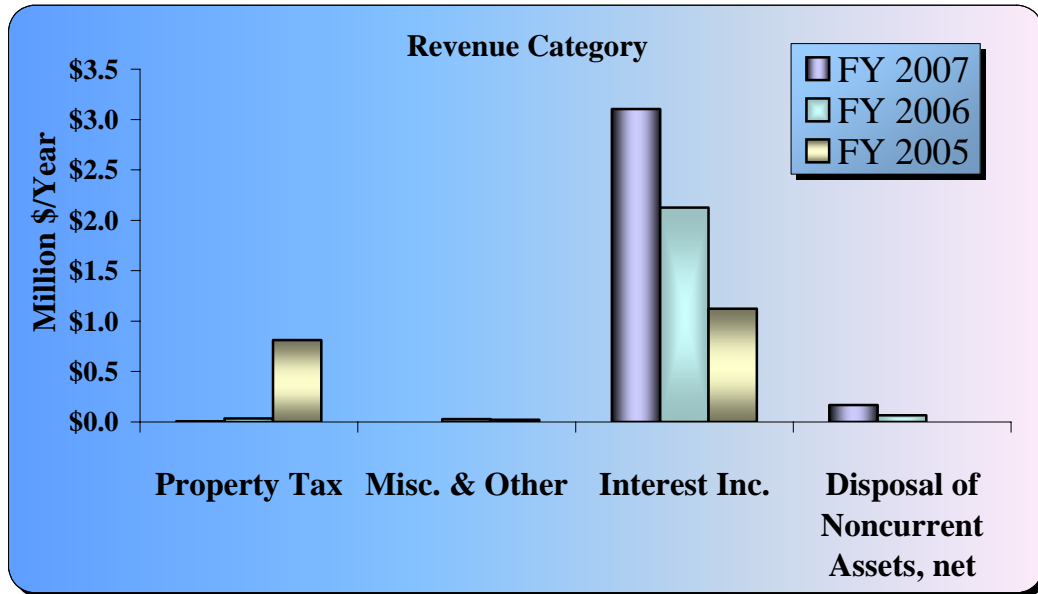
Operating Income (Loss). Combining operating revenues and expenses resulted in an operating income of \$4.2 million for FY 2007, a 5.0% increase when compared with the results of the District’s financial operations in FY 2006. From an operations standpoint the District remains in a strong financial position to meet its current obligations as covered in the items above.

Nonoperating Revenues. Total nonoperating revenues (expenses) experienced a net increase of \$0.8 million or about 90% increase during FY 2007. This increase is largely due to the net combined changes (see Figure 3 comparing FY 2007, 2006 and 2005 nonoperating expense categories) in property tax revenue, interest income, and disposal of fixed assets as described below:

- Continuing the previous year’s trend, property tax revenues declined 83% in FY 2007. The District’s Series 1993A and B General Obligation (GO) bonds were completely retired; therefore it was no longer necessary to levy property taxes to support their repayment. The District continues to receive nominal amounts of delinquent tax payments from prior year levies.

- Interest income for the District increased about 46% to \$3.1 million in FY 2007 due primarily to the stable interest rate environment maintained by the Federal Reserve Bank during the year, and the sizable unrestricted and restricted cash balances available for investment. This trend continues to build on last year's increase in interest income.
- Interest expense increased in FY 2007 by \$68,560 or about 9% and primarily reflects the interest portion of the scheduled debt service requirements in connection with the District's outstanding Series 2002 and Series 2005 Revenue Refunding bonds.
- Sale of capital assets net of depreciation increased by \$101,000 or 152% in FY 2007. This increase reflects the District's sale of water treatment capacity in the Willamette River Water Treatment Plant to the City of Sherwood.

Figure 3
Nonoperating Revenue Comparison
FY 2007 - 2005



Capital Contributions. During FY 2007, the District received \$7.77 million in capital contributions compared to \$7.55 million in FY 2006, an increase of about 2.9%. This year's contributions include \$4.65 million in System Development Charge (SDC) revenue, \$2.42 million in constructed assets provided by property developers, and \$0.7 million from water meters purchased by new customers and contributions in aid. Capital contributions tend to fluctuate with the level of property development activity within the District.

Total Revenue and Expense

Total FY 2007 revenues and expenses are shown in Table 3 below. Total revenues, combining operating revenues, nonoperating revenues and contributed capital increased \$2.9 million or 7.9% from FY 2006, and builds on the steady 6.5% increase from FY 2005 to FY 2006. Total expenses, including both operating expenses and nonoperating expenses increased a total of \$1.7 million or 7.0% during FY 2007. This follows a \$2.9 (10.9%) million decrease in total expenses between FY 2006 and FY 2005 due to significant cost saving activities during that period affecting contracts for purchased water and future District pension obligations. FY 2007 total expenses of \$25.8 million were \$1.3 million less than restated FY 2005 reflecting the District’s continued diligence to prudently manage its resources.

**Table 3
Total Revenues, Total Expenses, Changes in Net Assets FY 2007 - 2005**

| | <u>2007</u> | <u>2006</u> | <u>Difference 2006-2007</u> | <u>Percent Change</u> | <u>2005 As Restated</u> |
|------------------------------|----------------------|----------------------|---------------------------------|---------------------------|-----------------------------|
| Operating Revenues | \$ 28,353,563 | \$ 26,692,372 | \$ 1,661,191 | 6.2% | \$ 24,163,408 |
| Nonoperating Revenues | 3,276,763 | 2,258,303 | 1,018,460 | 45.1% | 1,438,564 |
| Contributed Capital | <u>7,771,107</u> | <u>7,551,522</u> | <u>219,585</u> | 2.9% | <u>8,664,378</u> |
| Total Revenues | <u>39,401,433</u> | <u>36,502,197</u> | <u>2,899,236</u> | 7.9% | <u>34,266,350</u> |
| Operating Expenses | 24,196,430 | 22,735,051 | 1,461,379 | 6.4% | 25,974,538 |
| Nonoperating Expenses | <u>1,601,021</u> | <u>1,375,529</u> | <u>225,492</u> | 16.4% | <u>1,079,697</u> |
| Total Expenses | <u>25,797,451</u> | <u>24,110,580</u> | <u>1,686,871</u> | 7.0% | <u>27,054,235</u> |
| Change in Net Assets: | <u>\$ 13,603,982</u> | <u>\$ 12,391,617</u> | <u>\$ 1,212,365</u> | 9.8% | <u>\$ 7,212,115</u> |

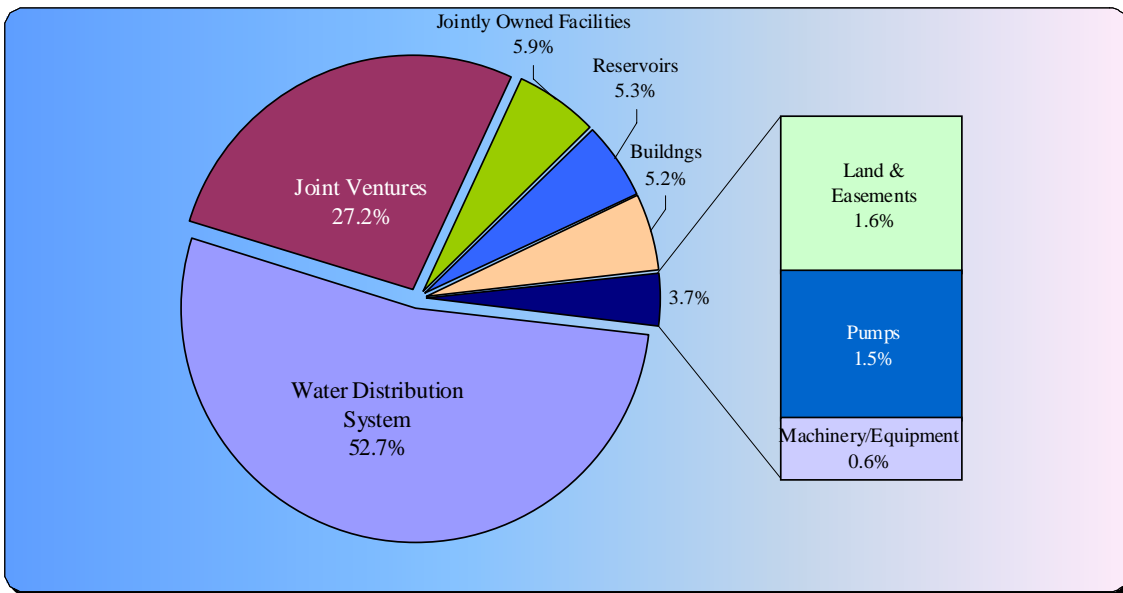
Capital Asset and Debt Administration

Capital Assets and Joint Ventures Activity

- The District’s net investment after depreciation in capital assets as of June 30, 2007, amounts to \$139.5 million. The District’s capital assets include \$12.7 million in non-depreciating land, easements and construction in progress; and \$126.8 million in buildings, reservoirs, pipelines, pump stations, office, automotive and construction equipment. Overall, net capital assets decreased \$1.4 million or about 1.0% from FY 2006. This net decrease is reflective of both the District’s sale to the City of Sherwood of five MGD capacity of the District’s investment in joint facilities at the Willamette River Water Treatment Plant, and additions to capital assets for construction in progress, as well as new water distribution system and other assets placed in service during the fiscal year.
- The District’s investment in joint ventures increased \$0.25 million or 0.5% during FY 2007, and is primarily associated with minor upgrades to JWC storage, treatment and transmission facilities.

Figure 4 shows TVWD’s capital asset categories and their percentage portion of the District’s total asset value in FY 2007. Additional information on the District’s capital assets can be found in the Notes to Basic Financial Statements.

Figure 4
Distribution of TVWD Capital Assets and Joint Venture Ownership
FY 2007



Long Term Debt Activity

On June 30, 2007 the District had a total outstanding bonded indebtedness of \$15.7 million. Of this amount, \$2.5 million was associated with outstanding Series 2002 revenue bonds and \$13.2 million in outstanding Series 2005 revenue refunding bonds. The current debt, including interest due, (debt payable before June 30, 2008) totals \$1.95 million. In FY 2006 the District fully retired its Series 1993A and B General Obligation (GO) bonds. The District is scheduled to retire its outstanding Series 2002 revenue bonds in December, 2013 and its outstanding Series 2005 revenue refunding bonds in August, 2017.

The District only issues bonds to finance capital improvements or to refinance existing bonds. Bonds sold to refinance existing debt are subject to threshold interest savings requirements of the State of Oregon. The most recent bonding activity was in FY 2006 with the District's issuance of its Water Revenue Refunding Bonds, Series 2005. The \$15,285,000 issue achieved a net present value savings of 3.31%. The Series 2005 bonds mature during FY 2018 and are insured and rated Aaa and AAA. The District currently has an underlying rating of Standard & Poor's AA-. As part of the sale of the Series 2005 revenue refunding bonds, Moody's increased its rating for the District from A1 to Aa3. The Series bonds mature during FY 2014 and are also insured and rated Aaa and AAA. The Series 2002 bonds carry underlying ratings of AA- and A1 from Standard & Poors and Moody's respectively.

On December 1, 2002 the Board of Commissioners adopted the Series 2002 Revenue Bond Declaration, replacing the 1994 Declaration. Key covenants of the 2002 declaration include a covenant to maintain annual net operating revenues that equal or exceed 1.25 times revenue bond debt service for the fiscal year and at least 1.20 times debt service after subtracting system development charges collected during the year. The District's Water Revenue Refunding Bonds, Series 2005 Bond Declaration adopted by the TVWD Board on August 18, 2005 also maintains this debt service coverage covenant.

Each year, as part of the audit process, the District's auditor is to certify as to the District's compliance with the covenant. Other important covenants promise to fund the District's upgrade and replacement accounts in an amount determined by a periodic Renewal and Replacement Study and to maintain a debt service reserve equal to the maximum year of debt service of all outstanding bonds. The debt service reserve requirement is met by using reserve equivalents in the form of an insurance policy issued by Financial Security Assurance, Inc.

The District's FY 2007 financial condition remained healthy with operating income of \$4.2 million, an increase of 5% over FY 2006. The District maintained compliance with its Series 2002 Revenue Bond Declaration coverage requirements with net operating revenues (including SDC Revenue) of \$14.0 million resulting in a coverage ratio of 7.19 (1.25 is required) and a coverage ratio (without SDC revenue) of 4.80 (1.20 is required).

The Notes to Basic Financial Statements of this report contains more detailed information regarding the status of bonded debt as of June 30, 2007, and schedules of future debt service requirements. In addition, further detailed information regarding debt activity is contained in the Additional Information subsection of this report.

Requests for Information

The financial report is designed to provide a general overview of Tualatin Valley Water District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Tualatin Valley Water District, 1850 SW 170th Avenue, Beaverton, Oregon 97006.

Tualatin Valley Water District



TUALATIN VALLEY WATER DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|---|----------------|----------------|
| ASSETS | | |
| <i>Current Unrestricted Assets</i> | | |
| Cash & investments | \$ 46,504,814 | \$ 35,714,326 |
| Accounts receivable | 2,923,101 | 2,892,503 |
| Accrued interest receivable | 433,882 | 193,590 |
| Inventory of materials & supplies | 747,595 | 753,138 |
| Prepaid expenses | 504,210 | 605,249 |
| | <hr/> | <hr/> |
| <i>Total Current Unrestricted Assets</i> | 51,113,602 | 40,158,806 |
| <i>Current Restricted Assets</i> | | |
| Bond construction | | |
| Investments | 1,300 | 1,254 |
| Accrued interest receivable | 12 | 5 |
| Revenue bond debt service | | |
| Investments | 104,222 | 4,915 |
| Accrued interest receivable | 729 | 35 |
| Deferred bond defeasance | 439,911 | 522,297 |
| Construction | | |
| Investments | 22,145,550 | 20,747,075 |
| Accounts receivable | - | 103,994 |
| Accrued interest receivable | 193,567 | 123,560 |
| Group 4 | | |
| Investments | 65,345 | 62,437 |
| Accounts receivable - computer service | 10,599 | 9,909 |
| Accrued interest receivable | 629 | 363 |
| | <hr/> | <hr/> |
| <i>Total Current Restricted Assets</i> | 22,961,864 | 21,575,844 |
| <i>Noncurrent Assets:</i> | | |
| INVESTMENT IN JOINT VENTURES | 48,553,271 | 48,307,129 |
| LAND, EASEMENTS & OTHER NON-DEPRECIABLE ASSETS | 12,743,891 | 8,516,084 |
| UTILITY PLANT IN SERVICE, at cost, less accumulated depreciation | 126,799,734 | 132,464,557 |
| | <hr/> | <hr/> |
| <i>Total Noncurrent Assets</i> | 188,096,896 | 189,287,770 |
| | <hr/> | <hr/> |
| <i>Total Assets</i> | \$ 262,172,362 | \$ 251,022,420 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

| | <u>2007</u> | <u>2006</u> |
|---|-----------------------|-----------------------|
| LIABILITIES & DISTRICT EQUITY | | |
| <i>Current Liabilities (payable from current assets)</i> | | |
| Accounts payable | \$ 2,653,327 | \$ 4,362,695 |
| Retainage payable | 83,603 | 8,786 |
| Accrued payroll & related expenses | 1,123,808 | 715,158 |
| Accrued vacation payable | 435,737 | 390,699 |
| Deposits | 515,955 | 603,094 |
| Bank drafts in excess of deposits | 92,351 | - |
| | <hr/> | <hr/> |
| <i>Total Current Liabilities payable from Unrestricted Assets</i> | 4,904,781 | 6,080,432 |
| <i>Current Liabilities (payable from restricted assets)</i> | | |
| Current portion of long-term debt | | |
| Revenue bonds | 1,315,000 | 1,275,000 |
| Accrued interest payable | 52,620 | 56,009 |
| | <hr/> | <hr/> |
| <i>Total Current Liabilities payable from Restricted Assets</i> | 1,367,620 | 1,331,009 |
| <i>Long-Term Debt, net of current portion</i> | | |
| <i>(payable from restricted assets)</i> | | |
| Revenue bonds | 14,390,000 | 15,705,000 |
| | <hr/> | <hr/> |
| <i>Total Long-Term Debt, net of current portion</i> | 14,390,000 | 15,705,000 |
| | | |
| <i>Total Liabilities</i> | 20,662,401 | 23,116,441 |
| NET ASSETS | | |
| Investment in capital assets, net of related debt | 124,278,536 | 124,522,938 |
| Restricted net assets | 22,909,244 | 21,519,835 |
| Net assets - unrestricted | 94,322,181 | 81,863,206 |
| | <hr/> | <hr/> |
| <i>Total Net Assets</i> | 241,509,961 | 227,905,979 |
| | | |
| <i>Total Liabilities & Net Assets</i> | <u>\$ 262,172,362</u> | <u>\$ 251,022,420</u> |

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

Tualatin Valley Water District



TUALATIN VALLEY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|--|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Water service | \$ 26,182,302 | \$ 24,696,956 |
| Computer services | 104,277 | 72,095 |
| Administrative services | 2,066,984 | 1,923,321 |
| <i>Total Operating Revenues</i> | 28,353,563 | 26,692,372 |
| OPERATING EXPENSES | | |
| Water purchased | 8,102,706 | 7,461,408 |
| Labor & fringe benefits | 9,073,313 | 8,278,086 |
| Maintenance & repairs | 1,407,553 | 1,253,053 |
| General & administrative | 2,042,460 | 2,159,493 |
| Electricity & other utilities | 118,328 | 110,184 |
| Supplies | 288,995 | 297,573 |
| Depreciation Expense | 4,053,165 | 4,119,392 |
| Less overhead & equipment usage expenses capitalized to water distribution system | (890,090) | (944,138) |
| <i>Total Operating Expense</i> | 24,196,430 | 22,735,051 |
| OPERATING INCOME | 4,157,133 | 3,957,321 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Miscellaneous Income (Loss) | (103,723) | 29,834 |
| Other, net (Loss) | (22,651) | 34,401 |
| Loss in equity in Joint Ventures | (655,769) | (630,621) |
| Interest income | 3,103,972 | 2,127,409 |
| Interest expense | (812,971) | (744,411) |
| Disposal of capital assets, net | 166,884 | 66,162 |
| <i>Total Nonoperating Revenues (Expenses)</i> | 1,675,742 | 882,774 |
| CAPITAL CONTRIBUTIONS | 7,771,107 | 7,551,522 |
| CHANGES IN NET ASSETS | 13,603,982 | 12,391,617 |
| NET ASSETS, Beginning of year | 227,905,979 | 215,514,362 |
| NET ASSETS, End of year | <u>\$ 241,509,961</u> | <u>\$ 227,905,979</u> |

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

TUALATIN VALLEY WATER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | \$ 26,248,122 | \$ 23,822,095 |
| Cash from Computer services | 104,277 | 72,095 |
| Cash from Administrative services | 2,066,984 | 1,923,321 |
| Cash payments for goods & services | (12,918,105) | (9,929,945) |
| Cash payments for employees & benefits | (8,270,954) | (7,641,898) |
| Cash receipts from Developer deposits and other | (12,322) | 177,085 |
| | <u>7,218,002</u> | <u>8,422,753</u> |
| <i>Net cash from operating activities</i> | | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Receipts from property taxes | - | 21,894 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets, including Joint Ventures | (8,128,158) | (8,177,267) |
| Principal paid on bonds | (1,275,000) | (1,845,000) |
| Interest paid on bonds | (816,360) | (762,033) |
| Capital contributed by customers | 5,316,210 | 5,984,026 |
| Disposal of capital assets | 6,976,280 | 391,969 |
| Share of JWC Income (reversal) from Sales of Timber | (103,723) | 29,834 |
| | <u>1,969,249</u> | <u>(4,378,471)</u> |
| <i>Net cash from capital and related financing activities</i> | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | 3,103,972 | 2,127,409 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 12,291,223 | 6,193,582 |
| CASH & INVESTMENTS, Beginning of year | <u>56,530,007</u> | <u>50,336,425</u> |
| CASH & INVESTMENTS, End of year | <u>\$ 68,821,230</u> | <u>\$ 56,530,007</u> |

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

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|---------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES | | |
| Operating Income | \$ 4,157,133 | \$ 3,957,321 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 4,053,165 | 4,119,392 |
| Additions to allowance, net | 96,418 | 49,224 |
| Changes in operating accounts | | |
| Accounts receivable | 72,706 | (918,291) |
| Inventory of materials & supplies | 5,543 | (112,403) |
| Prepaid expenses | 101,039 | (42,897) |
| Accounts & retainage payable | (1,634,551) | 733,501 |
| Accrued payroll liabilities | 453,688 | 422,510 |
| Deposits | (87,139) | 271,139 |
| Deferred revenue & other | - | (56,745) |
| Net Cash From Operating Activities | <u>\$ 7,218,002</u> | <u>\$ 8,422,751</u> |
| SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES | | |
| Assets contributed by customers | <u>\$ 2,454,897</u> | <u>\$ 1,567,496</u> |
| Reduction in investment in joint ventures due to loss on equity in earnings of joint ventures. | <u>\$ (655,769)</u> | <u>\$ (630,621)</u> |

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

Tualatin Valley Water District



TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2007 AND 2006

DESCRIPTION OF THE DISTRICT

The District

The District was organized for the purpose of furnishing water to its residents. The Board of Commissioners consists of five members as provided under Oregon Revised Statutes 264. In May 1991, Metzger Water District merged into Wolf Creek Highway Water District. The name was subsequently changed to Tualatin Valley Water District.

The principal sources of working capital are revenues from water service, interest earnings, and contributions from customers and developers for meters and distribution lines. Working capital is expended primarily for operations, additions to utility plant in service, and payment of long-term debt.

The District is supplied by and dependent on the City of Portland for roughly 53% of its water supply. The District operated under an extended 25-year contract in fiscal 2006. A new ten-year agreement with the City of Portland to purchase water was approved by the District Board of Commissioners in April and signed by the Board President on June 7, 2006.

The District is also supplied by the Joint Water Commission (JWC) for the other 47% of its water supply. There is a Water Service Agreement by and among the Cities of Hillsboro, Forest Grove, Beaverton and Tigard and the District. These parties jointly own, in varying amounts, raw water storage, surface water rights, raw water pump stations, water treatment plants, reservoirs and transmission facilities for the purpose of supplying potable water to each of the parties. The duration of the agreement is perpetual.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Tualatin Valley Water District is considered to be a single enterprise similar to a commercial entity for financial reporting purposes. Accordingly, these financial statements are maintained on the flow of economic resources measurement focus using the accrual basis of accounting utilizing accounting principles applicable to commercial enterprises. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred.

The District has applied all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements. The District does not apply FASB statements issued after November 30, 1989, unless they are specifically incorporated into GASB pronouncements.

Reporting Entity

Accounting principles generally accepted in the United States of America require that the reporting entity include: (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

A Board of Commissioners is elected by the citizens residing in the District governs Tualatin Valley Water District making the entity, by definition, a primary government.

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District has ownership positions in three joint ventures. One is a source of water, the Barney Reservoir Joint Ownership Commission. The second is for treatment and distribution of water, the Joint Water Commission (JWC). The third is Willamette River Water Coalition (WRWC), to coordinate water rights on the Willamette River.

The Barney Reservoir Joint Ownership Commission is a contract between the District and four other entities consisting of Clean Water Services and the cities of Hillsboro, Beaverton and Forest Grove. This is a separate entity and has separate financial statements. The control of this entity is provided by representatives from each contracting party. All operating expenses, capital asset acquisitions and net income or loss is allocated to each by the following percentages: Tualatin Valley Water District - 35%, Clean Water Services - 10%, Cities of Hillsboro - 31%, Beaverton - 21 ½% and Forest Grove - 2 ½%. The financial statements may be obtained from City of Hillsboro, Finance Department, 150 East Main Street, Fifth Floor, Hillsboro, Oregon 97123.

The JWC is a joint venture made up of the District, Hillsboro Utilities Commission and the cities of Beaverton, Forest Grove and Tigard. The JWC is governed by three members from each venturer. The purpose is to operate and maintain a water treatment plant, Spring Hill Pump Station, transmission lines from the pump station to the treatment plant, a 200 million gallon reservoir, and a surge tank. Operation and maintenance expense is determined on a unit basis by the JWC. Each joint venturer is charged based on the number of units of water diverted into its separate system. The agreement stipulates that net income or loss be allocated as follows: The District – 16.67%, Hillsboro - 45%, Beaverton - 25%, and Forest Grove – 13.33%. Tigard is a member but does not currently have an ownership interest. Tigard's membership entitles it to lease water from the JWC. The financial statements may be obtained from City of Hillsboro, Finance Department, 150 East Main Street, Fifth Floor, Hillsboro, Oregon 97123.

The WRWC, a joint venture, was formed by an intergovernmental agreement under Oregon Revised Statutes Chapter 190. In July 2002, an outside director was hired to oversee all work performed by contracted consultants. Beginning in fiscal year 2006 the percentage of investment by the District was reduced to 32% from 69%.

Operating Revenues, Non-Operating Revenues and Operating Expenses

The District has defined operating revenues to include all service charges and other applicable charges for services directly attributable to providing potable water, management services, construction plan review, hydrant water sales or other related activity.

Operating expenses are defined as those expenses directly related to providing the services reflected within operating revenues including depreciation and amortization, but excludes capital related personal services which are capitalized.

Nonoperating revenues are revenues of the District not directly attributable to the services provided. This includes investment interest, capital contributions, gain (loss) on sale of capital assets and property taxes.

Capital Contributions

Contributions from customers are comprised primarily of meter installation fees, system development charges, and contributions by developers for meter and pipe installation.

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

The District applies the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the Statements of Net Assets and recognize the corresponding change in the fair value of investments in the year in which the change occurred.

The District is restricted by State of Oregon statutes in the types of investments that can be made. Statutes authorize the District to invest in obligations of the U.S. Treasury; agencies, and instrumentalities of the U.S.; States of Oregon, Washington, Idaho or California; various interest bearing bonds of municipalities; commercial paper rated P-2 and better by Moody's Investors Services or A-2 and better by Standard and Poor's Corporation; bankers' acceptances; and the Oregon State Treasurer's Local Government Investment Pool. Certain other investment types, which are not listed here, are also authorized.

Investments are valued at cost, which approximates fair value. Fair value is defined as the amount at which an investment could be exchanged between willing parties, other than in a forced or liquidation sale.

Cash Equivalents/Statements of Cash Flows

For purposes of the Statements of Cash Flows, cash and investments include short-term (original maturity of three months or less) highly liquid investments that are readily converted into known amounts of cash or so near maturity they present insignificant risk of changes in value as a result of changes in interest rates.

Accounts Receivable

Water revenues are recorded when earned. Residential billings are rendered on a bi-monthly cycle and most commercial billings on a monthly cycle. The District accrues estimated revenue for water used by customers, but not yet billed. An allowance for doubtful accounts is reviewed periodically for adequacy using a five-year averaging of write-offs to water sales applied to the expected sales for the coming year.

Property Taxes Receivable

The District no longer levies taxes. The last General Obligation Bond Payment was made in December 2005 from the remaining assets in the Fund. The residual fund equity was transferred by Board appropriation to the General Fund in January, 2006. Delinquent tax receivables are now accounted for in the General Fund.

Inventory

Inventory of materials and supplies is stated at the lower of cost or market using average cost, and is charged against operations as used.

Restricted Assets and Related Liabilities

Assets, whose use is restricted to specific purposes by State statute, or bond indenture, and related liabilities, are segregated on the Statements of Net Assets.

Deferred Bond Defeasance Cost

Costs incurred relating to the defeasance of bonds are being amortized over the life of the new bonds by the effective interest method.

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Utility Plant in Service

Utility plant in service is stated at cost. Contributed assets are recorded at fair market value at the time received. Depreciation is computed using the straight-line method over the estimated useful lives of the various assets as follows:

| | <u>Years</u> |
|---|--------------|
| Buildings and water distribution system | 50 |
| Reservoirs | 35-50 |
| Pumps | 10-30 |
| Machinery and equipment | 3-20 |

Expenditures for major additions, improvements, and replacements are capitalized for amounts in excess of \$5,000. Normal maintenance and repairs are charged to operations as incurred. Gains or losses realized from sales or retirements of utility plant in service are credited or charged to operations. Interest is capitalized on all significant construction projects financed by bonds.

Net Assets

Net assets comprise the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net assets are classified in the following three components: investment in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Investment in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt (revenue bonds and other debt obligations) that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including legal mandates. Unrestricted consists of all other net assets not included in the above categories.

Vacation Policy

All full-time and permanent part-time employees are entitled to paid vacations. Vacation leave is computed on the basis of years of service and accrued bi-weekly as follows: 3.07 hours for the first four years, 4.61 hours for years five through nine, 5.53 hours for years ten through thirteen, 6.15 hours for years fourteen through nineteen, 6.46 hours for the twentieth year, 6.77 hours for the twenty-first year, 7.08 hours for the twenty-second year, 7.38 hours for the twenty-third year, and 7.69 hours for the twenty-fourth year and above. Permanent part-time employees are entitled to half of these rates. Vacations are scheduled by department and cleared in advance to best facilitate the workflow. Employees may accrue a maximum of two years of vacation time.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues, and expenses as of and for the years ended June 30, 2007 and 2006. Actual results may differ from such estimates.

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

BUDGETARY PROCESS AND FUND DESCRIPTIONS

Budget

Pursuant to Oregon Local Budget Law, Oregon Revised Statutes Chapter 294.305 through 294.565, the District manages its operations through fund accounting. A biennial operating budget is adopted on the odd years for all funds. The budget is adopted on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual (measurable and available to finance expenditures of the current period). Expenses are generally recognized when the related liability has been incurred. The exception is interest on general long-term debt, which is recognized when due.

In the budget process, a proposed budget is presented to the Budget Committee at an advertised meeting that is open to the public. The Budget Committee consists of the Board of Commissioners and five Board appointees who live within the District. Appointments are for four-year terms. Once the Budget Committee has approved a budget, a financial summary together with a notice of public hearing is prepared and published in a newspaper of general circulation in the District. At the public hearing the Board of Commissioners considers the budget and further public testimony prior to adoption.

The Board adopts the budget by resolution making appropriations by major functional categories for all funds for the two fiscal years. Appropriations lapse at the end of the second fiscal year of the biennium on June 30.

Major functional categories identify the legal level of budgetary control above which expenditures are not authorized. The major functional categories are personal services, materials and services, capital outlay, debt service, interfund transfers, and operating contingency. The Board of Commissioners may select a lower level of appropriations than the budget committee in which case the legal level of appropriation is stated in the appropriation resolution. The expenditure budget is adopted by major functional categories in the appropriation resolution. Administrative staff may not amend the adopted budget.

The Board of Commissioners may transfer from one functional category to another by resolution, but they may not increase total appropriations outside of the budget process. In the event of an unforeseen pressing need for expenditures or if unforeseen funds become available during the year, the Board of Commissioners may increase appropriations by adopting a supplemental budget. If the estimated expenditures in the supplemental budget are 10% or less than the related appropriation from the adopted biennial budget, the Board of Commissioners can adopt the supplemental budget at a regular meeting that has been advertised. The advertising must be in a newspaper of general circulation not less than five days prior to the meeting. If the proposed adjustments are more than 10%, the supplemental budget procedure is similar to the biennial budget procedure. There were no supplemental budgets in the current biennium.

Funds

The District uses the following budgetary funds to account for its activities:

General Fund

This fund is used to account for the financial resources of the District that are not accounted for in any other fund. Principal sources of revenue are water sales, service fees and interest earnings. Primary expenditures are for water purchases, system maintenance and general administration. Construction activities are performed through this fund and the appropriate construction funds are charged. System development charges are also recorded as revenue in this fund. System development charge revenue is transferred primarily to the Construction Fund, but may also be used to pay debt service on revenue bonded debt.

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

BUDGETARY PROCESS AND FUND DESCRIPTIONS (Continued)

Bond Construction Fund

This fund is used to account for bond proceeds that are legally restricted to expenditures for specified purposes, primarily capital projects.

General Obligation Bond Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, debt principal and interest for general obligation bonds. The principal sources of revenue are property taxes. The fund has been closed by Board Resolution in Fiscal Year 2006 as the last debt service payment for principal and interest has been made. Delinquent property tax receivables are now accounted for in the General Fund.

Revenue Bond Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, debt principal and interest for revenue bonds. The principal source of revenue is transfers from the General Fund from payments for water service and system development charge (SDC) proceeds when receipts for SDC's for the year are in excess of transfer appropriations to the Construction Fund.

Construction Fund

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by bond and assessment funds. The primary revenue sources are system development charge transfers, transfers from the general fund, and contributions from users and interest.

Group 4 Fund

This fund is used to account for an internal service fund that provides computer programming and support services for the District and certain other agencies. Group 4 will be dissolved effective October 1, 2007. The fund will be closed and remaining assets will be disbursed to remaining agencies.

Willamette River Water Coalition Fund

This fund is used to account for a joint venture to coordinate the use of municipal water rights on the Willamette River and undertake efforts to keep the Willamette River as a viable source for local and regional water needs. This fund has been eliminated from the entity wide statements but reported on a fund basis for informational purposes.

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

CASH AND INVESTMENTS

The District maintains substantially all of the investments in one pool. Earnings are allocated to the funds based on the portion of the pool held on a daily basis. Investments earned an average yield of 5.16% in 2007 and 3.89% in 2006.

| | <u>2007</u> | <u>2006</u> |
|---|----------------------|----------------------|
| Current Assets – Cash and Investments | \$ 46,504,813 | \$ 35,714,326 |
| Restricted Assets – Investments | | |
| Bond construction | 1,300 | 1,254 |
| Revenue bond debt service | 104,222 | 4,915 |
| Construction | 22,145,550 | 20,747,075 |
| Group 4 | <u>65,345</u> | <u>62,437</u> |
| Total Cash and Investments | <u>\$ 68,821,230</u> | <u>\$ 56,530,007</u> |
| Deposits (Drafts in excess of deposits) | \$ (91,251) | \$ 386,592 |
| Investments | <u>68,821,230</u> | <u>56,148,219</u> |
| Total | <u>\$ 68,729,979</u> | <u>\$ 56,530,007</u> |
| | <u>2007</u> | <u>2006</u> |
| Deposits | | |
| Cash on hand | \$ 1,100 | \$ 850 |
| Checking accounts, (Drafts in excess of deposits) | <u>(92,351)</u> | <u>385,742</u> |
| Total Deposits, (Drafts in excess of deposits) | <u>\$ (91,251)</u> | <u>\$ 386,592</u> |

Cash and Investments are held by the Tualatin Valley Water District for the Willamette River Water Coalition. The amount held totaled \$52,641 and \$4,804 at June 30, 2007 and June 30, 2006 respectively.

Interest Rate Risk Disclosure:

As of June 30, the District held the following investments:

| Investments | 2007 Weighted Average Maturity In Years | <u>2007</u> | <u>2006</u> |
|---|--|----------------------|----------------------|
| Participation in Oregon State Treasurer's Short-Term Investment Fund | 0.0001 | \$ 19,805,666 | \$ 24,050,477 |
| Keybank Money Market Account | 0.005 | 5,219,064 | - |
| US Government securities | | | 26,121,687 |
| Federal Home Loan Banks | 0.679 | 10,973,790 | |
| Federal National Mortgage Assn. | 0.857 | 8,977,500 | |
| Federal Home Loan Mortgage Corp. | 1.305 | 7,134,006 | |
| Federal Farm Credit Banks | 1.744 | 5,932,500 | |
| US Treasury Note | 0.640 | 3,026,714 | 3,035,835 |
| Commercial Paper (all rated A-1/P-1) | <u>0.317</u> | <u>7,751,990</u> | <u>2,940,220</u> |
| Total Investments | <u>0.570</u> | <u>\$ 68,821,230</u> | <u>\$ 56,148,219</u> |

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

CASH AND INVESTMENTS (Continued)

The “weighted average maturity in years” calculation assumes that all investments are held until maturity.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District’s investment policy has various limitations. The first priority is to invest in maturities that match liquidity needs of the District. At least one month’s estimated cash operating requirements will be maintained in the Local Government Investment Pool (LGIP). Thereafter, the District target is to maintain maturities within the following parameters:

| <i>Term</i> | <i>Minimum Allocation</i> <u><i>% of Total</i></u> | <i>Maximum Allocation</i> <u><i>% of Total</i></u> |
|--------------|---|---|
| 0-12 Months | 50 | |
| 12-18 Months | | 25 |
| 18-36 Months | | 25 |

Further, the District target for weighted average maturity is the benchmark established by the 3-year Treasury bill. The weighted average maturity of the total funds does not exceed eighteen months.

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool (LGIP) is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested, as a prudent investor would do, exercising reasonable care, skill and caution. At June 30, 2007, the fair value of the position in the LGIP was equal to 99.98% of the value of the pool shares. Separate financial statements for the LGIP are available from the Oregon State Treasurer. The credit quality of the LGIP is unrated as to credit risk.

The maximum amount of investments to be placed in the LGIP by an Oregon local government is limited by Oregon Statute to \$39,836,066. This amount increases by the Portland Consumer Price Index twice yearly on March 1 and September 1. The limit can be temporarily exceeded for ten consecutive business days and does not apply either to pass-through funds or to funds invested on behalf of another governmental unit.

The District’s policy, which adheres to State of Oregon law, is to limit its investments to the following: Issues within Oregon must be rated “A” (bonds) or A-2 / P-2 (commercial paper) or better by Standard and Poor’s, Moody’s Investors Service or any other nationally recognized statistical rating organization. Issuers not in Oregon must be rated AA / Aa (bonds) or A-1 / P-1 (commercial paper) or better.

As of June 30, 2007 and 2006, and for the fiscal years then ended, the District was in compliance with all State of Oregon collateral and investment restrictions.

Custodial Risk Disclosure:

At June 30, 2007, the book balance of the District’s bank deposits (checking accounts) is \$(92,351) and the bank balance is \$484,668. The difference is due to transactions in process. Of the deposit balance, \$100,000 is insured by federal depository insurance and the remaining balance is secured by collateral that is held by the pledging bank’s custodian acting as agents for the District in the District’s name. Oregon Revised Statutes require depository institutions to maintain on deposit, with a collateral pool manager, securities having a value not less than 25% of the outstanding certificates of participation issued by the pool manager.

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

| ACCOUNTS RECEIVABLE – CURRENT | June 30, | |
|--------------------------------------|---------------------|---------------------|
| | 2007 | 2006 |
| Water usage charges receivable | \$ 1,290,564 | \$ 1,030,090 |
| Unbilled water usage revenue accrued | 1,402,847 | 1,603,721 |
| Other | <u>447,584</u> | <u>379,269</u> |
| | 3,140,995 | 3,013,980 |
| Allowance for doubtful accounts | <u>(217,894)</u> | <u>(121,477)</u> |
| <i>Net Accounts Receivable</i> | <u>\$ 2,923,101</u> | <u>\$ 2,892,503</u> |

RESTRICTED ASSETS

Certain of the District's assets are restricted for specified purposes. Legal or contractual agreements restrict amounts for debt service, capital improvements, and Group 4.

Excluding bonds payable from general fund revenues, the components of the restricted assets, liabilities payable from restricted assets, liabilities associated with investment in capital assets and restricted net assets as of June 30, 2007, were as follows:

| | Total Restricted Assets | Total Liabilities Payable From Restricted Assets | Net Restricted Assets |
|---------------------------|--|---|--------------------------------------|
| Bond construction | \$ 1,312 | \$ - | \$ 1,312 |
| Revenue bond debt service | 544,862 | (52,620) | 492,242 |
| Construction | 22,339,117 | - | 22,339,117 |
| Group 4 | <u>76,573</u> | <u>-</u> | <u>76,573</u> |
| | <u>\$ 22,961,864</u> | <u>\$ (52,620)</u> | <u>\$ 22,909,244</u> |

Excluding bonds payable from general fund revenues, the components of the restricted assets, liabilities payable from restricted assets, liabilities associated with investment in capital assets and restricted net assets as of June 30, 2006, were as follows:

| | Total Restricted Assets | Total Liabilities Payable From Restricted Assets | Net Restricted Assets |
|---------------------------|--|---|--------------------------------------|
| Bond construction | \$ 1,259 | \$ - | \$ 1,259 |
| Revenue bond debt service | 527,247 | (56,009) | 471,238 |
| Construction | 20,974,629 | - | 20,974,629 |
| Group 4 | <u>72,709</u> | <u>-</u> | <u>72,709</u> |
| | <u>\$ 21,575,844</u> | <u>\$ (59,009)</u> | <u>\$ 21,519,835</u> |

The current portion of revenue bond debt service resides in the general fund until transfer appropriations are adopted by the Board of Commissioners.

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

UTILITY PLANT IN SERVICE

The components of Utility Plant in Service for the year ended June 30, 2007 is as follows:

| | <i>Balance July 1, 2006</i> | <i>Additions</i> | <i>Transfers</i> | <i>Disposals</i> | <i>Balance June 30, 2007</i> |
|---|-------------------------------------|---------------------|---------------------|------------------------|--------------------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land and easements | \$ 2,853,747 | \$ - | \$ - | \$ - | \$ 2,853,747 |
| Construction in progress | <u>5,662,337</u> | <u>6,892,550</u> | <u>(2,664,743)</u> | <u>-</u> | <u>9,890,144</u> |
| <i>Total Capital Assets, not being depreciated</i> | <u>8,516,084</u> | <u>6,892,550</u> | <u>(2,664,743)</u> | <u>-</u> | <u>12,743,891</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 11,494,372 | - | - | - | 11,494,372 |
| Investment in joint facilities | 19,041,383 | - | - | (7,397,284) | 11,644,099 |
| Water distribution system | 132,679,938 | 2,417,393 | 2,641,733 | (34,054) | 137,705,010 |
| Reservoirs | 14,534,439 | - | - | - | 14,534,439 |
| Pumps | 4,557,634 | - | - | - | 4,557,634 |
| Machinery and equipment | <u>4,610,309</u> | <u>115,602</u> | <u>23,010</u> | <u>-</u> | <u>4,748,921</u> |
| <i>Total Capital Assets, being depreciated</i> | 186,918,074 | 2,532,995 | 2,664,743 | (7,431,338) | 184,684,474 |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (1,899,026) | (372,899) | - | - | (2,271,925) |
| Investment in joint facilities | (1,441,637) | (250,802) | - | 591,783 | (1,100,656) |
| Water distribution system | (41,216,395) | (2,701,705) | - | 30,159 | (43,887,941) |
| Reservoirs | (4,728,510) | (313,137) | - | - | (5,041,647) |
| Pumps | (1,752,660) | (132,558) | - | - | (1,885,218) |
| Machinery and equipment | <u>(3,415,289)</u> | <u>(282,064)</u> | <u>-</u> | <u>-</u> | <u>(3,697,353)</u> |
| <i>Total Accumulated Depreciation</i> | <u>(54,453,517)</u> | <u>(4,053,165)</u> | <u>-</u> | <u>621,942</u> | <u>(57,884,740)</u> |
| <i>Total Capital Assets, being depreciated, net</i> | <u>132,464,557</u> | <u>(1,520,170)</u> | <u>2,664,743</u> | <u>(6,809,396)</u> | <u>126,799,734</u> |
| <i>Total Capital Assets, net</i> | <u>\$ 140,980,641</u> | <u>\$ 5,372,380</u> | <u>\$ -</u> | <u>\$ (6,809,396)</u> | <u>\$ 139,543,625</u> |

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

UTILITY PLANT IN SERVICE (Continued)

The components of Utility Plant in Service for the year ended June 30, 2006 is as follows:

| | <i>Balance July 1, 2005</i> | <i>Additions</i> | <i>Transfers</i> | <i>Disposals</i> | <i>Balance June 30, 2006</i> |
|---|-------------------------------------|---------------------|---------------------|----------------------|--------------------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land and easements | \$ 2,872,497 | \$ - | \$ - | \$ (18,750) | \$ 2,853,747 |
| Construction in progress | <u>3,765,973</u> | <u>3,464,132</u> | <u>(1,567,768)</u> | <u>-</u> | <u>5,662,337</u> |
| <i>Total Capital Assets, not being depreciated</i> | <u>6,638,470</u> | <u>3,464,132</u> | <u>(1,567,768)</u> | <u>(18,750)</u> | <u>8,516,084</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 11,499,375 | - | 11,836 | (16,839) | 11,494,372 |
| Investment in joint facilities | 19,348,484 | - | - | (307,101) | 19,041,383 |
| Water distribution system | 130,364,323 | 1,412,647 | 912,058 | (9,090) | 132,679,938 |
| Reservoirs | 13,891,694 | - | 643,874 | (1,130) | 14,534,439 |
| Pumps | 4,500,495 | 65,000 | - | (7,860) | 4,557,634 |
| Machinery and equipment | <u>4,982,957</u> | <u>269,690</u> | <u>-</u> | <u>(642,338)</u> | <u>4,610,309</u> |
| <i>Total Capital Assets, being depreciated</i> | 184,587,327 | 1,747,337 | 1,567,768 | (984,358) | 186,918,074 |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (1,528,087) | (373,914) | - | 2,975 | (1,899,026) |
| Investment in joint facilities | (1,062,434) | (395,582) | - | 16,379 | (1,441,637) |
| Water distribution system | (38,606,752) | (2,618,733) | - | 9,090 | (41,216,395) |
| Reservoirs | (4,422,672) | (306,968) | - | 1,130 | (4,728,510) |
| Pumps | (1,628,317) | (132,203) | - | 7,860 | (1,752,660) |
| Machinery and equipment | <u>(3,763,164)</u> | <u>(291,992)</u> | <u>-</u> | <u>639,867</u> | <u>(3,415,289)</u> |
| Total Accumulated Depreciation | <u>(51,011,426)</u> | <u>(4,119,392)</u> | <u>-</u> | <u>677,301</u> | <u>(54,453,517)</u> |
| <i>Total Capital Assets, being depreciated, net</i> | <u>133,575,901</u> | <u>(2,372,055)</u> | <u>1,567,768</u> | <u>(307,057)</u> | <u>132,464,557</u> |
| <i>Total Capital Assets, net</i> | <u>\$ 140,214,371</u> | <u>\$ 1,092,077</u> | <u>\$ -</u> | <u>\$ (325,807)</u> | <u>\$ 140,980,641</u> |

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

INVESTMENT IN JOINT VENTURES

| | Joint Water Commission <u>Joint Venture</u> | Barney Reservoir <u>Joint Venture</u> | Willamette River Water <u>Coalition</u> | <u>Total</u> |
|--|--|--|--|----------------------|
| Investment in joint ventures at June 30, 2005 | \$ 33,364,219 | \$ 11,594,026 | \$ - | \$ 44,958,245 |
| Investment | 3,979,505 | - | - | 3,979,505 |
| Income (loss) for the year | <u>(367,080)</u> | <u>(265,409)</u> | <u>1,868</u> | <u>(630,621)</u> |
| Investment in joint ventures at June 30, 2006 | 36,976,644 | 11,328,617 | 1,868 | 48,307,129 |
| Investment | 836,106 | - | 65,805 | 901,911 |
| Income (loss) for the year | <u>(371,880)</u> | <u>(236,526)</u> | <u>(47,363)</u> | <u>(655,769)</u> |
| Investment in joint ventures at June 30, 2007 | <u>\$ 37,440,870</u> | <u>\$ 11,092,091</u> | <u>\$ 20,310</u> | <u>\$ 48,553,271</u> |

Joint Water Commission

In June, 1994 the District purchased an interest in the Joint Water Commission (“JWC”) to provide joint operations for the supply, pumping, treatment, and transmission of potable water. The agreement dated June 30, 1994 was established between the Cities of Hillsboro, Beaverton, and Forest Grove, and the District. The agreement was subsequently revised in October, 2003 between the parties and allowed the City of Tigard to join. The District ownership share of the JWC is 16.67%. The District had maintained recognition of the JWC as a joint operation. This report represents the District’s portion of the JWC as a joint venture.

Barney Reservoir Joint Ownership Commission

The Barney Reservoir Joint Ownership commission (“BRJOC”) was formed to own, operate, and expand the J.W. Barney Reservoir (a dam on the Trask River in the coastal mountains.) The parties to the BRJOC agreement are the four JWC entities and Clean Water Services. The BRJOC is governed by one member from each entity. The District currently has a 35% ownership (7,000 acre-feet) of the Barney Reservoir impoundment.

The operation costs of each joint venture are shared by the participating agencies and are reported as an operating expense in the District’s general fund. The District reports its share of income or loss on the Joint Water and Barney Reservoir Joint Ventures using the equity method. Financial statements for both commissions may be obtained from the City of Hillsboro, Finance Department, 150 East Main Street, Fifth Floor, Hillsboro, Oregon, 97123.

Willamette River Water Coalition

The Willamette River Water Coalition (“WRWC”) was formed by an intergovernmental agreement under Oregon Revised Statutes Chapter 190. The parties to the WRWC agreement are the cities of Sherwood, Tualatin, Tigard, and Gladstone, along with Canby Utility Board and the District. The WRWC budget for 2005-06 changed the percentage of ownership between the entities, reducing the District percentage enough that the WRWC is no longer financially dependent on the District. As of July 1, 2005, the Financial Statements of the District reflect the accounting for the WRWC as a joint venture using the equity method.

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

LONG-TERM DEBT

The District's general obligation bonds in prior years were paid from collections of property taxes. The District has ceased assessing property taxes as the last bond has been paid in fiscal year 2006. The General Obligation Debt Service Fund has been closed. Remaining delinquent property tax receivable is being accounted for in the General Fund. As of June 30, 2007 the balance of delinquent property tax receivable is \$5,907.

Revenue bonds are payable from operating revenues. Bond principal is paid annually and interest semiannually. The interest rates for the revenue bonds range from 2.5% to 5.0%. The revenue bond resolution contains revenue requirements that rates and fees be adequate to generate net operating revenues of at least 1.25 times principal and interest, and 1.20 times principal and interest after subtracting system development charges. The District has exceeded these requirements for the year ending June 30, 2007.

On June 22, 2005 the Tualatin Valley Water District Board authorized the issuance of Water Revenue Refunding Bonds, Series 2005. The Bonds were sold on August 11, 2005 and closed on August 18, 2005 for \$15,285,000 which has a net present value savings of \$518,309, a 3.31% savings over the Advanced Refunded 1998 bonds of \$14,885,000. The new bonds mature in FY 2018. The underlying rating for District Water Revenue Bonds is Aa3 by Moody's and AA- by Standard and Poor's.

| | <u>Balance</u> <u>July 1, 2006</u> | <u>New</u> <u>Obligations</u> | <u>Matured/</u> <u>Retired</u> | <u>Balance</u> <u>June 30, 2007</u> |
|--|---------------------------------------|----------------------------------|-----------------------------------|--|
| December 1, 2002 Bonds (Issued \$3,450,000 2.5%-4.0%) | \$ 2,770,000 | \$ - | \$ 305,000 | \$ 2,465,000 |
| August 18, 2005 Bonds (Issued \$15,285,000 3.3% - 5.0%) | <u>14,210,000</u> | <u>-</u> | <u>970,000</u> | <u>13,240,000</u> |
| | <u>\$ 16,980,000</u> | <u>\$ -</u> | <u>\$ 1,275,000</u> | <u>\$ 15,705,000</u> |

Maturities of long-term debt are as follows:

| <u>Year Ending</u> <u>June 30,</u> | <u>Revenue</u> <u>Bonds</u> | <u>General</u> <u>Obligation</u> <u>Bonds</u> | <u>Interest</u> <u>Requirements</u> | <u>Total</u> <u>Future Debt</u> <u>Service</u> |
|---------------------------------------|--------------------------------|---|--|--|
| 2008 | \$ 1,315,000 | \$ - | \$ 631,437 | \$ 1,946,737 |
| 2009 | 1,360,000 | - | 585,200 | 1,945,200 |
| 2010 | 1,410,000 | - | 538,412 | 1,948,412 |
| 2011 | 1,450,000 | - | 486,363 | 1,936,363 |
| 2012 | 1,505,000 | - | 431,125 | 1,936,125 |
| 2013-2017 | 7,200,000 | - | 1,254,275 | 8,454,275 |
| 2018 | <u>1,465,000</u> | <u>-</u> | <u>65,925</u> | <u>1,530,925</u> |
| | <u>\$ 15,705,000</u> | <u>\$ -</u> | <u>\$ 3,992,737</u> | <u>\$ 19,697,737</u> |

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

LONG-TERM DEBT (Continued)

Long-Term debt due within one year from June 30, 2007:

| | <u>Principal</u> | <u>Interest</u> |
|------------------------|------------------|-----------------|
| Revenue Bonds: | | |
| December 1, 2002 Bonds | | |
| December 1, 2007 | - | \$46,475 |
| June 1, 2008 | \$315,000 | 46,475 |
| August 18, 2005 Bonds | | |
| December 1, 2007 | - | 269,244 |
| June 1, 2008 | 1,000,000 | 269,243 |

PENSION PLANS

Plan Description – The District contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the District’s contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying District employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contributions portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member’s IAP, not the member’s PERS account.

Both PERS plans provide retirement and disability benefits, post employment healthcare benefits, annual cost-of-living adjustment, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from PERS, P.O. Box 23700, Tigard, OR 97281-7377.

Funding Policy – Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The District is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF and the OPSRP rates in effect for the year ended June 30, 2007 were 10.03% and 8.04% respectively, remaining unchanged from the year ended June 30, 2006. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Covered employees are required by State statute to contribute 6.0 percent of their salary to the plan. Current law permits employers to pay employee contributions to the Retirement Fund. The District is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The District's rate was 10.03 percent of each covered employee’s salary through June 30, 2007.

Annual Pension Cost – The District’s contributions to PERS for the years ending June, 30, 2005, 2006 and 2007 were; \$2,194,728; \$898,576; and \$997,964 respectively, which equaled the required contributions 2006 and 2007. The 2005 amount consisted of an additional \$1,409,296 to fully fund the plan at the beginning of fiscal year 2005 to reduce future funding contribution percentages of payroll.

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

PENSION PLANS (Continued)

Defined Contribution Plan

The Tualatin Valley Water District Money Purchase Pension Plan is a defined contribution plan with employer contributions of 12% and employee contributions of 6% after December 1, 1994. The Plan Administrator is the General Manager. The authority for the Plan is with the Board of Commissioners. Contributions vest immediately and are paid from the General Fund. The employees in the defined contribution plan are not eligible to participate in the defined benefit pension plan. The only employees eligible to participate are those who were participants in the plan of Metzger Water District. Covered payroll was \$161,055 and \$218,782 for the years ended June 30, 2007 and 2006, respectively. District contributions were \$19,326 and \$26,254; employee contributions were \$9,663 and \$13,127 for the years ended June 30, 2007 and 2006, respectively. There are only two staff members remaining who are covered by this plan.

RISK MANAGEMENT

The District carries commercial insurance for insurable risks. Most of the policies carry a small deductible amount. The District has an aggressive program of risk management through its Safety Coordinator and Emergency Planning, Risk and Security Coordinator. The Safety Coordinator operates an extensive number of safety programs including defensive driving, CPR, hearing and drug awareness, traffic control, confined space entry, trenching and shoring, safety leadership, pre-job planning and scheduled inspections. The District insurer obtains coverage for all major risks. Claims have not exceeded coverage in any of the last three years.

NET ASSETS

Net assets represent the difference between assets and liabilities. The restricted net asset amounts were as follows:

| | <u>2007</u> | <u>2006</u> |
|---|-----------------------|-----------------------|
| Invested in capital assets, net of related debt: | | |
| Net capital assets in service | \$ 139,543,625 | \$ 140,980,641 |
| Less: | | |
| Revenue bonds, net | <u>(15,265,089)</u> | <u>(16,457,703)</u> |
| | <u>\$ 124,278,536</u> | <u>\$ 124,522,938</u> |
| | | |
| | <u>2007</u> | <u>2006</u> |
| Restricted for capital activity and debt service: | | |
| Restricted assets | \$ 22,961,864 | \$ 21,575,844 |
| Deductions: | | |
| Accrued interest payable on bonds outstanding | <u>(52,620)</u> | <u>(56,009)</u> |
| | <u>\$ 22,909,244</u> | <u>\$ 21,519,835</u> |

TUALATIN VALLEY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

COMMITMENTS

During FY 2006, the District purchased 37% of its water from the City of Portland, Oregon, under an extended 25-year contract which commenced during fiscal year 1980. A new ten-year agreement with the City of Portland was approved by the Board of Commissioners in April of 2006, and signed by the Board President on June 7, 2006. The new agreement ensures that a firm supply of water will be made available, and obligates the District to purchase an average of 13.16 million gallons of water per day or pay Portland for water not taken.

Water purchase costs are determined annually based on Portland's Bureau of Water Works operating requirements under an enterprise method of accounting, including a return on invested capital and replacement cost depreciation. The water purchase costs reflect the City's total cost as allocated to the District and its other customers in proportion to their use of the City's water system. These costs were 86.5 cents and 89.5 cents per hundred cubic feet for the years ended June 30, 2007 and 2006, respectively.

The District also has an agreement with the City of Portland which provides for use of 88.5% of the sixty-inch gravity flow water main from Portland. Under the agreement, the District must make specified minimum payments to fund its proportionate share of maintenance costs and debt service requirements on bonds issued by the City of Portland to pay for the main. These costs are included in water purchase costs. The last payment of debt service was made during FY 2006, which reduces the District's annual obligation from \$1.4 million to \$5,000 for maintenance only.

The City of Tualatin has an agreement with the District to purchase 20.34% of the District's obligation from the gravity flow water main. The City of Portland bills the City of Tualatin for the water they use.

As a member of the Joint Water Commission, the District has rights to purchase 10 million gallons of water daily through the Commission. The cost of water taken from the Commission is an allocation of Commission costs over the aggregate volume taken by the Commission members. The District also leases excess capacity of the JWC Treatment Plant from the other JWC parties per the JWC ownership agreement. For fiscal 2007 the District leased 6 million gallons daily.

The District has agreed to assign its 1973, 130 MGD Willamette River water right permit to the Willamette River Water Coalition (WRWC). However, if the District ever terminates membership in the WRWC, any undeveloped rights will revert to the District.

Construction activity commitments commenced in Fiscal Year 2007 included the development of the Tueful Reservoir and Pump Station project for \$4,075,699.

TUALATIN VALLEY WATER DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND TRANSFERS (BUDGETARY BASIS) -

GENERAL FUND

YEAR ENDED JUNE 30, 2007

| | <i>Budget for the 2005-07 Biennium</i> | | <i>Actual Results</i> | | | <i>Variance to Revised Budget</i> |
|---|--|----------------------|-----------------------------------|-----------------------------------|----------------------|---------------------------------------|
| | <i>Original</i> | <i>Revised</i> | <i>First Year</i> | | <i>Total</i> | |
| | | | <i>As Restated FY 2005-06</i> | <i>Second Year FY 2006-07</i> | | |
| REVENUES | | | | | | |
| Water Sales | \$ 53,394,100 | \$ 53,394,100 | \$ 24,696,956 | \$ 26,182,302 | \$ 50,879,258 | \$ (2,514,842) |
| Service fees | 399,800 | 399,800 | 216,715 | 340,300 | 557,015 | 157,215 |
| Interfund sales | 862,989 | 862,989 | 373,312 | 369,587 | 742,900 | (120,089) |
| Other revenues | 5,199,967 | 5,199,967 | 3,455,231 | 10,742,761 | 14,197,992 | 8,998,025 |
| System Development Charge | 12,109,100 | 12,109,100 | 5,387,192 | 4,654,711 | 10,041,903 | (2,067,197) |
| Construction revenue from other funds | 22,004,611 | 22,004,611 | 7,758,892 | 7,265,990 | 15,024,882 | (6,979,729) |
| <i>Total Revenues</i> | 93,970,567 | 93,970,567 | 41,888,298 | 49,555,652 | 91,443,950 | (2,526,617) |
| Residual Equity Transfer | 83,912 | 128,912 | 118,247 | - | 118,247 | (10,665) |
| BEGINNING FUND BALANCE, AS PREVIOUSLY STATED | 34,737,678 | 34,737,678 | 27,871,624 | 34,085,098 | 27,871,624 | (6,866,054) |
| Restatement - correct posting of FY GAAP entries | | | 423,720 | | 423,720 | 423,720 |
| BEGINNING FUND BALANCE, AS RESTATED | 34,737,678 | 34,737,678 | 28,295,344 | 34,085,098 | 28,295,344 | (6,442,334) |
| | <u>\$128,792,157</u> | <u>\$128,837,157</u> | <u>\$ 70,301,889</u> | <u>\$ 83,640,750</u> | <u>\$119,857,540</u> | <u>\$ (8,979,617)</u> |
| EXPENDITURES: | | | | | | |
| Personal services | \$ 18,491,717 | \$ 18,491,717 | \$ 8,654,571 | \$ 9,645,779 | \$ 18,300,350 | \$ 191,367 |
| Materials and services | 46,695,110 | 46,695,110 | 17,716,876 | 18,582,839 | 36,299,715 | 10,395,395 |
| Capital outlay | 972,350 | 972,350 | 269,690 | 115,602 | 385,292 | 587,058 |
| Operating contingencies | 9,900,000 | 9,900,000 | - | - | - | 9,900,000 |
| <i>Total Expenditures</i> | 76,059,177 | 76,059,177 | 26,641,137 | 28,344,220 | 54,985,357 | 21,073,820 |
| TRANSFERS TO OTHER FUNDS: | | | | | | |
| Construction Fund | 20,647,752 | 20,647,752 | 7,620,654 | 7,048,616 | 14,669,270 | 5,978,482 |
| Revenue Bond Fund | 4,000,000 | 4,000,000 | 1,955,000 | 2,045,000 | 4,000,000 | - |
| <i>Total Transfers</i> | 24,647,752 | 24,647,752 | 9,575,654 | 9,093,616 | 18,669,270 | 5,978,482 |
| <i>Total Expenditures and Transfers</i> | 100,706,929 | 100,706,929 | 36,216,791 | 37,437,836 | 73,654,627 | 27,052,302 |
| UNAPPROPRIATED ENDING FUND BALANCE | 28,085,228 | 28,130,228 | 34,085,098 | 46,202,914 | 46,202,914 | (18,072,686) |
| | <u>\$128,792,157</u> | <u>\$128,837,157</u> | <u>\$ 70,301,889</u> | <u>\$ 83,640,750</u> | <u>\$119,857,540</u> | <u>\$ 8,979,617</u> |

TUALATIN VALLEY WATER DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND TRANSFERS (BUDGETARY BASIS) -

BOND CONSTRUCTION FUND

YEAR ENDED JUNE 30, 2007

| | <i>Budget for the 2005-07 Biennium</i> | | <i>Actual Results</i> | | | <i>Variance with Revised Budget</i> |
|---|--|-----------------|----------------------------------|-----------------------------------|-----------------|---|
| | <i>Original</i> | <i>Revised</i> | <i>First Year FY 2005-06</i> | <i>Second Year FY 2006-07</i> | <i>Total</i> | |
| REVENUES | | | | | | |
| Interest on investments | \$ 87 | \$ 87 | \$ 39 | \$ 53 | \$ 92 | \$ 5 |
| BEGINNING FUND BALANCE | 1,245 | 1,245 | 1,221 | 1,260 | 1,221 | (24) |
| | <u>\$ 1,332</u> | <u>\$ 1,332</u> | <u>\$ 1,260</u> | <u>\$ 1,313</u> | <u>\$ 1,313</u> | <u>\$ (19)</u> |
| UNAPPROPRIATED ENDING FUND BALANCE | <u>\$ 1,332</u> | <u>\$ 1,332</u> | <u>\$ 1,260</u> | <u>\$ 1,313</u> | <u>\$ 1,313</u> | <u>\$ 19</u> |

TUALATIN VALLEY WATER DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND TRANSFERS (BUDGETARY BASIS) -

GENERAL OBLIGATION BOND DEBT SERVICE FUND

YEAR ENDED JUNE 30, 2007

| | <i>Budget for the 2005-07 Biennium</i> | | <i>Actual Results</i> | | | <i>Variance with Revised Budget</i> |
|---|--|---------------------|----------------------------------|-----------------------------------|---------------------|---|
| | <i>Original</i> | <i>Revised</i> | <i>First Year FY 2005-06</i> | <i>Second Year FY 2006-07</i> | <i>Total</i> | |
| REVENUES | | | | | | |
| Property taxes: | | | | | | |
| Current year | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Prior years | 18,100 | 18,100 | 21,894 | - | 21,894 | 3,794 |
| Interest on investments | 7,500 | 7,500 | 14,744 | - | 14,744 | 7,244 |
| Miscellaneous revenues | 2,205 | 2,205 | - | - | - | (2,205) |
| <i>Total Revenues</i> | 27,805 | 27,805 | 36,638 | - | 36,638 | 8,833 |
| BEGINNING FUND BALANCE | 946,552 | 991,552 | 972,055 | - | 972,055 | (19,497) |
| | <u>\$ 974,357</u> | <u>\$ 1,019,357</u> | <u>\$ 1,008,693</u> | <u>\$ -</u> | <u>\$ 1,008,693</u> | <u>\$ (10,664)</u> |
| EXPENDITURES: | | | | | | |
| Principal on bonds | \$ 870,000 | \$ 870,000 | \$ 870,000 | \$ - | \$ 870,000 | \$ - |
| Interest on bonds | 20,445 | 20,445 | 20,445 | - | 20,445 | - |
| <i>Total Expenditures</i> | 890,445 | 890,445 | 890,445 | - | 890,445 | - |
| Residual Equity Transfer | 83,912 | 128,912 | 118,248 | - | 118,248 | 10,664 |
| UNAPPROPRIATED ENDING FUND BALANCE | - | - | - | - | - | - |
| | <u>\$ 974,357</u> | <u>\$ 1,019,357</u> | <u>\$ 1,008,693</u> | <u>\$ -</u> | <u>\$ 1,008,693</u> | <u>\$ 10,664</u> |

TUALATIN VALLEY WATER DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND TRANSFERS (BUDGETARY BASIS) -

REVENUE BOND DEBT SERVICE FUND

YEAR ENDED JUNE 30, 2007

| | <i>Budget for the 2005-07 Biennium</i> | | <i>Actual Results</i> | | | <i>Variance with Revised Budget</i> |
|---|--|---------------------|----------------------------------|-----------------------------------|---------------------|---|
| | <i>Original</i> | <i>Revised</i> | <i>First Year FY 2005-06</i> | <i>Second Year FY 2006-07</i> | <i>Total</i> | |
| REVENUES | | | | | | |
| Interest on investments | \$ 600 | \$ 600 | \$ 506 | \$ 2,114 | \$ 2,620 | \$ 2,020 |
| Miscellaneous revenues | - | - | 3,389 | - | 3,389 | 3,389 |
| Transfers from General Fund | 4,000,000 | 4,000,000 | 1,955,000 | 2,045,000 | 4,000,000 | - |
| TOTAL REVENUES | 4,000,600 | 4,000,600 | 1,958,895 | 2,047,114 | 4,006,009 | 5,409 |
| BEGINNING FUND BALANCE | 9,920 | 9,920 | 6,213 | 4,949 | 6,213 | (3,707) |
| | \$ 4,010,520 | \$ 4,010,520 | \$ 1,965,108 | \$ 2,052,063 | \$ 4,012,222 | \$ 1,702 |
| EXPENDITURES: | | | | | | |
| Principal | \$ 2,360,000 | \$ 2,360,000 | \$ 1,375,000 | \$ 1,275,000 | \$ 2,650,000 | \$ (290,000) |
| Interest | 1,638,300 | 1,638,300 | 585,158 | 672,113 | 1,257,271 | 381,029 |
| <i>Total Expenditures</i> | 3,998,300 | 3,998,300 | 1,960,158 | 1,947,113 | 3,907,271 | 91,029 |
| UNAPPROPRIATED ENDING FUND BALANCE | 12,220 | 12,220 | 4,949 | 104,951 | 104,951 | (92,731) |
| | \$ 4,010,520 | \$ 4,010,520 | \$ 1,965,108 | \$ 2,052,063 | \$ 4,012,222 | \$ (1,702) |

TUALATIN VALLEY WATER DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND TRANSFERS (BUDGETARY BASIS) -

CONSTRUCTION FUND

YEAR ENDED JUNE 30, 2007

| | Budget for the 2005-07 Biennium | | Actual Results | | | Variance with Revised Budget |
|---|--|----------------------|----------------------------------|-----------------------------------|----------------------|---|
| | Original | Revised | First Year FY 2005-06 | Second Year FY 2006-07 | Total | |
| REVENUES | | | | | | |
| Other Water Districts | \$ - | \$ - | \$ 1,171 | \$ 2,758 | \$ 3,929 | \$ 3,929 |
| Interest on Investments | 1,305,080 | 1,305,080 | 818,450 | 1,079,971 | 1,898,421 | 593,341 |
| Contributed Capital | 1,451,000 | 1,451,000 | 596,834 | 672,747 | 1,269,581 | (181,419) |
| Miscellaneous Income | - | - | 29,834 | (103,723) | (73,889) | (73,889) |
| <i>Total Revenues</i> | 2,756,080 | 2,756,080 | 1,446,288 | 1,651,754 | 3,098,042 | 341,962 |
| Transfer From General Fund | 20,647,752 | 20,647,752 | 7,620,654 | 7,048,616 | 14,669,270 | (5,978,482) |
| BEGINNING FUND BALANCE | 19,955,667 | 19,955,667 | 19,672,334 | 20,974,629 | 19,672,334 | (283,333) |
| | <u>\$ 43,359,499</u> | <u>\$ 43,359,499</u> | <u>\$ 28,739,276</u> | <u>\$ 29,674,999</u> | <u>\$ 37,439,646</u> | <u>\$ (5,919,853)</u> |
| EXPENDITURES: | | | | | | |
| Material and Services | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Capital Outlay | 22,004,611 | 22,004,611 | 7,764,647 | 7,335,882 | 15,100,529 | 6,904,082 |
| <i>Total Expenditures</i> | 22,004,611 | 22,004,611 | 7,764,647 | 7,335,882 | 15,100,529 | 6,904,082 |
| UNAPPROPRIATED ENDING FUND BALANCE | 21,354,888 | 21,354,888 | 20,974,629 | 22,339,117 | 22,339,117 | (984,229) |
| | <u>\$ 43,359,499</u> | <u>\$ 43,359,499</u> | <u>\$ 28,739,276</u> | <u>\$ 29,674,999</u> | <u>\$ 37,439,646</u> | <u>\$ 5,919,853</u> |

TUALATIN VALLEY WATER DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND TRANSFERS (BUDGETARY BASIS) -

GROUP 4 FUND

YEAR ENDED JUNE 30, 2007

| | <i>Budget for the 2005-07 Biennium</i> | | <i>Actual Results</i> | | | <i>Variance with Revised Budget</i> |
|---|--|-------------------|----------------------------------|-----------------------------------|-------------------|---|
| | <i>Original</i> | <i>Revised</i> | <i>First Year FY 2005-06</i> | <i>Second Year FY 2006-07</i> | <i>Total</i> | |
| REVENUES | | | | | | |
| Sales of Service | \$ 609,989 | \$ 609,989 | \$ 251,718 | \$ 241,366 | \$ 493,084 | \$ (116,905) |
| Interest on Investments | 21,760 | 21,760 | 2,452 | 3,863 | 6,314 | (15,446) |
| <i>Total Revenues</i> | 631,749 | 631,749 | 254,170 | 245,229 | 499,398 | (132,351) |
| BEGINNING FUND BALANCE | 69,635 | 69,635 | 70,258 | 72,710 | 70,258 | 623 |
| | <u>\$ 701,384</u> | <u>\$ 701,384</u> | <u>\$ 324,428</u> | <u>\$ 317,938</u> | <u>\$ 569,656</u> | <u>\$ (131,728)</u> |
| EXPENDITURES: | | | | | | |
| Material and Services | 609,989 | 609,989 | 251,718 | 241,366 | 493,084 | 116,905 |
| Capital Outlay | - | - | - | - | - | - |
| <i>Total Expenditures</i> | 609,989 | 609,989 | 251,718 | 241,366 | 493,084 | 116,905 |
| UNAPPROPRIATED ENDING FUND BALANCE | 91,395 | 91,395 | 72,710 | 76,572 | 76,572 | (14,823) |
| | <u>\$ 701,384</u> | <u>\$ 701,384</u> | <u>\$ 324,428</u> | <u>\$ 317,938</u> | <u>\$ 569,656</u> | <u>\$ 131,728</u> |

TUALATIN VALLEY WATER DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND TRANSFERS (BUDGETARY BASIS) -

WILLAMETTE RIVER WATER COALITION FUND

YEAR ENDED JUNE 30, 2007

| | <i>Budget for the 2005-07 Biennium</i> | | <i>Actual Results</i> | | | <i>Variance with Revised Budget</i> |
|---|--|----------------|----------------------------------|-----------------------------------|--------------|---|
| | <i>Original</i> | <i>Revised</i> | <i>First Year FY 2005-06</i> | <i>Second Year FY 2006-07</i> | <i>Total</i> | |
| REVENUES | | | | | | |
| Sales of Service | \$ 261,262 | \$ 261,262 | \$ 91,000 | \$ 172,200 | \$ 263,200 | \$ 1,938 |
| Interest on Investments | 8,600 | 8,600 | 1,002 | 4,287 | 5,289 | (3,311) |
| <i>Total Revenues</i> | 269,862 | 269,862 | 92,002 | 176,487 | 268,489 | (1,373) |
| BEGINNING FUND BALANCE | 33,138 | 33,138 | 34,481 | 4,890 | 34,481 | 1,343 |
| | \$ 303,000 | \$ 303,000 | \$ 126,484 | \$ 181,377 | \$ 302,971 | \$ (29) |
| EXPENDITURES: | | | | | | |
| Material and Services | \$ 253,000 | \$ 253,000 | \$ 121,594 | \$ 128,221 | \$ 249,815 | \$ 3,185 |
| Contingency | 50,000 | 50,000 | - | - | - | 50,000 |
| <i>Total Expenditures</i> | 303,000 | 303,000 | 121,594 | 128,221 | 249,815 | 53,185 |
| UNAPPROPRIATED ENDING FUND BALANCE | - | - | 4,890 | 53,156 | 53,156 | (53,156) |
| | \$ 303,000 | \$ 303,000 | \$ 126,484 | \$ 181,377 | \$ 302,971 | \$ 29 |

TUALATIN VALLEY WATER DISTRICT

RECONCILIATION OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)

TO THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2007

BUDGETARY BASIS

| | <u>Total revenues</u> | <u>Total expenditures</u> | <u>Net</u> |
|---|-----------------------|---------------------------|----------------------|
| General Fund | \$ 49,555,652 | \$ 37,437,836 | \$ 12,117,816 |
| Bond Construction Fund | 53 | - | 53 |
| General Obligation Bonded Debt Service Fund | - | - | - |
| Revenue Bonded Debt Service Fund | 2,047,114 | 1,947,113 | 100,001 |
| Construction Fund | 8,700,370 | 7,335,882 | 1,364,487 |
| Group 4 Fund | 245,229 | 241,366 | 3,863 |
| WRWC Fund | 176,487 | 128,221 | 48,266 |
| | <u>\$ 60,724,904</u> | <u>\$ 47,090,418</u> | <u>\$ 13,634,486</u> |

**ADD (DEDUCT) ITEMS TO RECONCILE
TO CHANGES IN NET ASSETS ON A
FINANCIAL REPORTING BASIS**

| | |
|--|-------------|
| Payment of long-term debt: | |
| Revenue bonds | 1,275,000 |
| Contributed capital for infrastructure | (5,403,379) |
| Capital outlay | 7,041,031 |
| Depreciation | (4,053,165) |
| Accrued bond interest | 3,389 |
| Amortization of defeasance costs | (82,386) |
| Net book value of plant assets retired | (6,809,396) |
| Other | (7,026) |
| Loss on Equity in Joint Ventures | (655,769) |
| Overhead and equipment capitalized | 890,090 |
| Capital contributions, cash and contributed pipe | 7,771,107 |

CHANGES IN NET ASSETS

\$ 13,603,982

TUALATIN VALLEY WATER DISTRICT
SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
YEAR ENDED JUNE 30, 2007

| <i>Fiscal Year Ended June 30</i> | <i>Property Taxes Receivable July 1, 2006</i> | <i>Levy As Extended By Assessor</i> | <i>Cancelations & Adjustments</i> | <i>Cash Collections</i> | <i>Interest</i> | <i>Discounts Allowed</i> | <i>Property Taxes Receivable June 30, 2007</i> |
|--------------------------------------|---|---|---|-----------------------------|-----------------|------------------------------|--|
| 2007 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2006 | - | - | - | - | - | - | - |
| 2005 | 4,466 | - | (388) | (2,161) | 7 | 348 | 2,272 |
| 2004 | 4,920 | - | (1,193) | (2,814) | 26 | 832 | 1,771 |
| 2003 | 2,083 | - | (140) | (1,697) | 2 | 448 | 696 |
| 2002 | 611 | - | (30) | (299) | - | 86 | 368 |
| Prior yrs | 924 | - | 46 | (295) | - | 125 | 800 |
| | <u>\$ 13,004</u> | <u>\$ -</u> | <u>\$ (1,705)</u> | <u>\$ (7,266)</u> | <u>\$ 35</u> | <u>\$ 1,839</u> | <u>\$ 5,907</u> |

Source: Tualatin Valley Water District Financial Records

TUALATIN VALLEY WATER DISTRICT
SCHEDULE OF BOND TRANSACTIONS
YEAR ENDED JUNE 30, 2007

| | <i>Interest Rates</i> | <i>Amount of Original Issue</i> | <i>Outstanding June 30, 2006</i> | <i>Principal</i> | |
|----------------------------|-----------------------|---------------------------------|----------------------------------|-------------------------------|---------------------------|
| | | | | <i>2006-2007 Transactions</i> | |
| | | | | <i>----- Matured</i> | <i>----- Redeemed</i> |
| REVENUE BONDS | | | | | |
| December 1, 2002 | 2.5-4.0% | 3,450,000 | 2,770,000 | 305,000 | 305,000 |
| August 18, 2005 | 2.69-3.8% | 15,285,000 | 14,210,000 | 970,000 | 970,000 |
| <i>Total Revenue Bonds</i> | | | <u>\$ 16,980,000</u> | <u>\$ 1,275,000</u> | <u>\$ 1,275,000</u> |

| | | <i>Interest</i> | | | |
|------------------------------|--|---|-----------------------------------|--------------------------|--|
| <i>Advance Refunding</i> | <i>Outstanding June 30, 2007</i> | <i>Matured Coupons July 1, 2006</i> | <i>2006-2007 Transactions</i> | | <i>Matured Coupons June 30, 2007</i> |
| | | | ----- <i>Matured</i> | ----- <i>Redeemed</i> | |
| - | 2,465,000 | - | 102,100 | 102,100 | - |
| - | 13,240,000 | - | 570,013 | 570,013 | - |
| <u>\$</u> | <u>\$ 15,705,000</u> | <u>\$</u> | <u>672,113</u> | <u>\$ 672,113</u> | <u>\$</u> |
| | | - | | | - |

TUALATIN VALLEY WATER DISTRICT**SCHEDULE OF FUTURE DEBT SERVICE REQUIREMENTS OF REVENUE BONDS****BY ISSUE AND FISCAL YEAR**

JUNE 30, 2007

| <i>Fiscal Year Ended June 30</i> | <i>Issue Date Interest Rate</i> | <i>Refunding of 1998 Bonds August 18, 2005</i> | <i>Refunding of 1994 Bonds December 1, 2002</i> | <i>Total</i> |
|---------------------------------------|---|--|---|---------------|
| | | <i>3.25% to 5.00%</i> | <i>2.5% to 4.00%</i> | |
| 2008 | | \$ 1,000,000 | \$ 315,000 | \$ 1,315,000 |
| 2009 | | 1,035,000 | 325,000 | 1,360,000 |
| 2010 | | 1,070,000 | 340,000 | 1,410,000 |
| 2011 | | 1,105,000 | 345,000 | 1,450,000 |
| 2012 | | 1,140,000 | 365,000 | 1,505,000 |
| 2013 | | 1,185,000 | 380,000 | 1,565,000 |
| 2014 | | 1,235,000 | 395,000 | 1,630,000 |
| 2015 | | 1,280,000 | - | 1,280,000 |
| 2016 | | 1,330,000 | - | 1,330,000 |
| 2017 | | 1,395,000 | - | 1,395,000 |
| 2018 | | 1,465,000 | - | 1,465,000 |
| <i>Total Principal</i> | | 13,240,000 | 2,465,000 | 15,705,000 |
| 2008 | | \$ 538,487 | \$ 92,950 | \$ 631,437 |
| 2009 | | 502,488 | 82,712 | 585,200 |
| 2010 | | 466,263 | 72,150 | 538,413 |
| 2011 | | 426,963 | 59,400 | 486,363 |
| 2012 | | 385,525 | 45,600 | 431,125 |
| 2013 | | 342,775 | 31,000 | 373,775 |
| 2014 | | 295,375 | 15,800 | 311,175 |
| 2015 | | 245,975 | - | 245,975 |
| 2016 | | 194,775 | - | 194,775 |
| 2017 | | 128,575 | - | 128,575 |
| 2018 | | 65,925 | - | 65,925 |
| <i>Total Interest</i> | | 3,593,125 | 399,612 | 3,992,737 |
| <i>Total Principal & Interest</i> | | \$ 16,833,125 | \$ 2,864,612 | \$ 19,697,737 |

| <i>Fiscal Year Ended June 30</i> | <i>Issue Date Interest Rate</i> | <i>Principal and Interest</i> | | <i>Total Principal and Interest</i> |
|--------------------------------------|---|--|---|---|
| | | <i>Refunding of 1998 Bonds August 18, 2005</i> | <i>Refunding of 1994 Bonds December 1, 2002</i> | |
| | | <i>3.25% to 5.00%</i> | <i>2.50% to 4.00%</i> | |
| 2008 | | \$ 1,538,487 | \$ 407,950 | \$ 1,946,437 |
| 2009 | | 1,537,488 | 407,712 | 1,945,200 |
| 2010 | | 1,536,263 | 412,150 | 1,948,413 |
| 2011 | | 1,531,962 | 404,400 | 1,936,362 |
| 2012 | | 1,525,525 | 410,600 | 1,936,125 |
| 2013 | | 1,527,775 | 411,000 | 1,938,775 |
| 2014 | | 1,530,375 | 410,800 | 1,941,175 |
| 2015 | | 1,525,975 | - | 1,525,975 |
| 2016 | | 1,524,775 | - | 1,524,775 |
| 2017 | | 1,523,575 | - | 1,523,575 |
| 2018 | | 1,530,925 | - | 1,530,925 |
| | | <u>\$ 16,833,125</u> | <u>\$ 2,864,612</u> | <u>\$ 19,697,737</u> |

Tualatin Valley Water District



TUALATIN VALLEY WATER DISTRICT
STATISTICAL SECTION

This part of Tualatin Valley Water District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required information says about the District's overall financial health.

| Contents | Page |
|---|-------------|
| Financial Trends | 61 |
| These schedules contain trend information to help the reader understand how the District's financial performance and economic stability have changed over time. | |
| Revenue Capacity | 68 |
| These schedules contain information to help the reader assess the District's most significant local revenue source, the District water rate. | |
| Debt Capacity | 73 |
| These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and its ability to issue additional debt in the future. | |
| Demographic and Economic Information | 76 |
| These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place. | |
| Operating Information | 79 |
| These schedules contain service data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs. | |

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

TUALATIN VALLEY WATER DISTRICT
STATISTICAL SECTION - FINANCIAL TRENDS

Financial Trends

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

| | Page |
|--|------|
| Net Assets By Component | 62 |
| Changes in Net Assets | 63 |
| Operating Revenues By Source | 64 |
| Operating Expenses | 65 |
| Non-Operating Revenues and Expenses | 66 |
| Annual Capital Contributions By Source | 67 |

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

TUALATIN VALLEY WATER DISTRICT

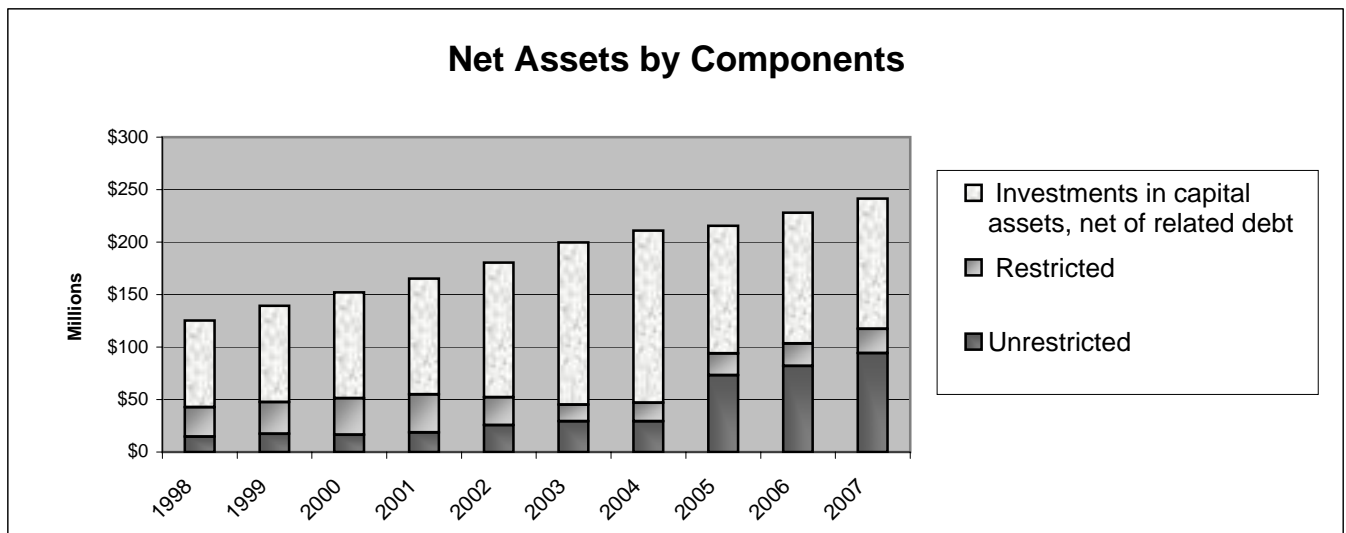
NET ASSETS BY COMPONENT

LAST TEN FISCAL YEARS

| | <i>Fiscal Year</i> | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| <i>Investments in capital assets, net of related debt</i> | \$124,278,536 | \$124,522,938 | \$121,594,065 | \$164,019,819 | \$154,546,219 |
| <i>Restricted</i> | 22,909,244 | 21,519,835 | 20,871,405 | 17,513,229 | 15,764,575 |
| <i>Unrestricted</i> | 94,322,181 | 81,863,206 | 73,048,892 | 29,373,709 | 29,297,909 |
| Total Net Assets | \$241,509,961 | \$227,905,979 | \$215,514,362 | \$210,906,757 | \$199,608,703 |

| | <i>Fiscal Year</i> | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
| <i>Investments in capital assets, net of related debt</i> | \$146,374,293 | \$128,138,353 | \$110,566,742 | \$100,795,546 | \$91,747,576 |
| <i>Restricted</i> | 14,516,611 | 26,712,687 | 36,209,271 | 34,877,421 | 30,149,691 |
| <i>Unrestricted</i> | 28,597,922 | 25,547,714 | 18,582,593 | 16,384,207 | 17,504,437 |
| Total Net Assets | \$189,488,826 | \$180,398,754 | \$165,358,606 | \$152,057,174 | \$139,401,704 |

Source: Derived from audited annual financial statements.



TUALATIN VALLEY WATER DISTRICT
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS

| | <u>2007*</u> | <u>2006*</u> | <u>2005*⁽¹⁾</u> |
|--|---------------|---------------|----------------------------|
| OPERATING REVENUES: | | | |
| Water service | \$26,182,302 | \$24,696,956 | \$21,690,825 |
| Computer service | 104,277 | 72,095 | 148,191 |
| Administrative service | 2,066,984 | 1,923,321 | 2,324,392 |
| | ----- | ----- | ----- |
| <i>Total Operating Revenues</i> | 28,353,563 | 26,692,372 | 24,163,408 |
| OPERATING EXPENSES: | | | |
| Water purchased | 8,102,706 | 7,461,408 | 9,501,982 |
| Labor and fringe benefits | 9,073,313 | 8,278,086 | 9,054,198 |
| Maintenance and repairs | 1,407,553 | 1,253,053 | 1,289,663 |
| General and administrative | 2,042,460 | 2,159,493 | 2,328,619 |
| Electricity and other utilities | 118,328 | 110,184 | 95,873 |
| Supplies | 288,995 | 297,573 | 395,473 |
| Depreciation Expense | 4,053,165 | 4,119,392 | 3,863,292 |
| Less capitalized overhead | (890,090) | (944,138) | (554,562) |
| | ----- | ----- | ----- |
| <i>Total Operating Expenses</i> | 24,196,430 | 22,735,051 | 25,974,538 |
| OPERATING INCOME (LOSS) | 4,157,133 | 3,957,321 | (1,811,130) |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Property taxes | 5,907 | 34,898 | 812,770 |
| Miscellaneous income (timber revenue) | (103,723) | 29,834 | 21,348 |
| Loss in equity in joint ventures | (655,769) | (630,621) | (490,179) |
| Interest income | 3,103,972 | 2,127,409 | 1,121,940 |
| Interest expense | (812,971) | (744,411) | (1,079,697) |
| Disposal of capital assets, Net | 166,884 | 66,162 | (29,713) |
| Beaverton buy-back of capacity | - | - | - |
| Other, net | (28,558) | (497) | 2,397 |
| | ----- | ----- | ----- |
| <i>Total Non-Operating Revenues (Expenses)</i> | 1,675,742 | 882,774 | 358,866 |
| CAPITAL CONTRIBUTIONS | 7,771,107 | 7,551,522 | 8,664,378 |
| | ----- | ----- | ----- |
| CHANGE IN NET ASSETS | 13,603,982 | 12,391,617 | 7,212,115 |
| DEPRECIATION UTILITY PLANT ACQUIRED BY CONTRIBUTION | | | |
| NET ASSETS, beginning of year | 227,905,979 | 215,514,362 | 210,906,756 |
| <i>Restatement of investment in joint ventures</i> | | | (2,604,509) |
| NET ASSETS, beginning of year, as restated | | | 208,302,247 |
| | ----- | ----- | ----- |
| NET ASSETS, end of year | \$241,509,961 | \$227,905,979 | \$215,514,362 |

*2002 through 2007 reflect application of GASB #33

Source: Tualatin Valley Water District Annual Financial Statements and Records.

(1) Fiscal years prior to 2005 were not restated for investments in joint ventures.

| <u>2004*</u> | <u>2003*</u> | <u>2002*</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| \$23,265,587 | \$21,414,678 | \$20,179,698 | \$19,936,952 | \$18,944,135 | \$16,989,078 | \$15,413,380 |
| 151,857 | 176,789 | 191,107 | 32,589 | 149,665 | 153,560 | 141,596 |
| 1,732,788 | 1,630,207 | 1,330,287 | 1,435,347 | 865,021 | 768,827 | 737,669 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 25,150,232 | 23,221,674 | 21,701,092 | 21,404,888 | 19,958,821 | 17,911,465 | 16,292,645 |
| 9,256,821 | 8,255,231 | 7,971,731 | 7,696,490 | 6,810,308 | 7,153,827 | 6,478,021 |
| 6,840,474 | 6,340,078 | 7,185,065 | 5,478,404 | 4,800,507 | 4,474,756 | 4,372,878 |
| 1,071,963 | 1,197,294 | 965,242 | 841,117 | 571,146 | 884,263 | 752,244 |
| 2,140,923 | 2,020,025 | 1,709,348 | 1,559,290 | 1,422,838 | 1,223,347 | 1,276,092 |
| 118,792 | 92,863 | 107,540 | 93,328 | 77,427 | 81,427 | 83,015 |
| 353,590 | 295,117 | 294,025 | 259,434 | 270,042 | 223,690 | 220,749 |
| 4,519,907 | 4,205,485 | 3,943,892 | 3,785,668 | 3,428,360 | 3,343,899 | 2,691,013 |
| (542,660) | (571,021) | (1,387,285) | (1,802,795) | (492,889) | (632,494) | (464,680) |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 23,759,810 | 21,835,072 | 20,789,558 | 17,910,936 | 16,887,739 | 16,752,714 | 15,409,332 |
| 1,390,422 | 1,386,602 | 911,534 | 3,493,952 | 3,071,082 | 1,158,751 | 883,313 |
| 1,869,308 | 1,905,995 | 1,848,700 | 1,864,673 | 1,571,571 | 2,256,466 | 2,222,710 |
| 1,497 | 21,570 | 34,903 | 61,771 | 22,890 | 82,906 | 109,218 |
| - | - | - | - | - | - | - |
| 710,401 | 782,354 | 1,235,350 | 3,082,546 | 2,855,970 | 2,459,628 | 2,451,593 |
| (1,138,931) | (1,308,491) | (1,481,952) | (1,641,764) | (1,830,653) | (1,880,189) | (1,501,623) |
| 1,533,540 | 13,857 | (2,129) | (3,009,759) | (2,264,509) | 64,660 | (315,269) |
| - | - | - | 1,223,252 | 2,309,083 | - | - |
| 16,884 | 20,608 | 19,508 | 14,702 | 17,045 | 22,859 | 33,917 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 2,992,699 | 1,435,893 | 1,654,380 | 1,595,421 | 2,681,397 | 3,006,330 | 3,000,546 |
| 6,914,931 | 7,297,381 | 6,524,158 | | | | |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 11,298,052 | 10,119,876 | 9,090,072 | 5,089,373 | 5,752,479 | 4,165,081 | 3,883,859 |
| | | | 2,020,499 | 1,864,437 | 1,701,501 | 1,514,922 |
| 199,608,703 | 189,488,826 | 180,398,754 | 168,479,515 | 160,862,599 | 154,996,017 | 149,597,236 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| \$210,906,756 | \$199,608,703 | \$189,488,826 | \$175,589,387 | \$168,479,515 | \$160,862,599 | \$154,996,017 |

Tualatin Valley Water District



TUALATIN VALLEY WATER DISTRICT
OPERATING REVENUES BY SOURCE
LAST TEN FISCAL YEARS

| <i>Year Ended June 30,</i> | <i>Water Service</i> | <i>Computer Services</i> | <i>Administrative Services</i> | <i>Total</i> |
|--------------------------------|--------------------------|------------------------------|------------------------------------|--------------|
| 2007 | \$26,182,302 | \$104,277 | \$2,066,984 | \$28,353,563 |
| 2006 | 24,696,956 | 72,095 | 1,923,321 | 26,692,372 |
| 2005 | 21,690,825 | 148,191 | 2,324,392 | 24,163,408 |
| 2004 | 23,265,587 | 151,857 | 1,732,788 | 25,150,232 |
| 2003 | 21,414,678 | 176,789 | 1,630,207 | 23,221,674 |
| 2002 | 20,179,698 | 191,107 | 1,330,287 | 21,701,092 |
| 2001 | 19,936,952 | 32,589 | 1,435,347 | 21,404,888 |
| 2000 | 18,944,135 | 149,665 | 865,021 | 19,958,821 |
| 1999 | 16,989,078 | 153,560 | 768,827 | 17,911,465 |
| 1998 | 15,413,380 | 141,596 | 737,669 | 16,292,645 |

TUALATIN VALLEY WATER DISTRICT
OPERATING EXPENSES
LAST TEN FISCAL YEARS

| <i>Fiscal Year Ending June 30,</i> | <i>Water Purchased</i> | <i>Labor and Fringe Benefits</i> | <i>Maintenance and Repairs</i> | <i>General and Administrative</i> | <i>Electricity and Other Utilities</i> |
|--|----------------------------|--|--|---|--|
| 2007 | \$8,102,706 | \$9,073,313 | \$1,407,553 | \$2,042,460 | \$118,328 |
| 2006 | 7,461,408 | 8,278,086 | 1,253,053 | 2,159,493 | 110,184 |
| 2005 ⁽¹⁾ | 9,501,982 | 9,054,198 | 1,289,663 | 2,328,619 | 95,873 |
| 2004 | 9,256,821 | 6,840,474 | 1,071,963 | 2,140,923 | 118,792 |
| 2003 | 8,255,231 | 6,340,078 | 1,197,294 | 2,020,025 | 92,863 |
| 2002 | 7,971,731 | 7,185,065 | 965,242 | 1,709,348 | 107,540 |
| 2001 | 7,696,490 | 5,478,404 | 841,117 | 1,559,290 | 93,328 |
| 2000 | 6,810,308 | 4,800,507 | 571,146 | 1,422,838 | 77,427 |
| 1999 | 7,153,827 | 4,474,756 | 884,263 | 1,223,347 | 81,427 |
| 1998 | 6,478,021 | 4,372,878 | 752,244 | 1,276,092 | 83,015 |

(1) Fiscal years prior to 2005 were not restated for investments in joint ventures.

| <i>Supplies</i> | <i>Less Capitalized Overhead</i> | <i>Subtotal, Expenses before Depreciation</i> | <i>Depreciation</i> | <i>Total Operating Expenses</i> |
|-----------------|--|---|---------------------|---|
| \$288,995 | (\$890,090) | \$20,143,265 | \$4,053,165 | \$24,196,430 |
| 297,573 | (944,138) | 18,615,659 | 4,119,392 | 22,735,051 |
| 395,473 | (554,562) | 22,111,246 | 3,863,292 | 25,974,538 |
| 353,590 | (542,660) | 19,239,903 | 4,519,907 | 23,759,810 |
| 295,117 | (571,021) | 17,629,587 | 4,205,485 | 21,835,072 |
| 294,025 | (1,387,285) | 16,845,666 | 3,943,892 | 20,789,558 |
| 259,434 | (1,802,795) | 14,125,269 | 3,785,668 | 17,910,937 |
| 270,042 | (492,889) | 13,459,379 | 3,428,360 | 16,887,739 |
| 223,690 | (632,494) | 13,408,816 | 3,343,899 | 16,752,715 |
| 220,749 | (464,680) | 12,718,319 | 2,691,013 | 15,409,332 |

TUALATIN VALLEY WATER DISTRICT
NONOPERATING REVENUES AND EXPENSES
LAST TEN FISCAL YEARS

| <i>Fiscal Year Ending June 30,</i> | <i>Property Taxes</i> | <i>Miscellaneous Income (Timber Revenue)</i> | <i>Change In Joint Venture</i> | <i>Interest Income</i> | <i>Interest Expense</i> |
|--|---------------------------|--|------------------------------------|----------------------------|-----------------------------|
| 2007 | \$ 5,907 | \$ (103,723) | \$ (655,769) | \$ 3,103,972 | \$ (812,971) |
| 2006 | 34,898 | 29,834 | (630,621) | 2,127,409 | (744,411) |
| 2005 ⁽¹⁾ | 812,770 | 21,348 | (490,179) | 1,121,940 | (1,079,697) |
| 2004 | 1,869,308 | 1,497 | - | 710,401 | (1,138,931) |
| 2003 | 1,905,995 | 21,570 | - | 782,354 | (1,308,491) |
| 2002 | 1,848,700 | 34,903 | - | 1,235,350 | (1,481,952) |
| 2001 | 1,864,673 | 61,771 | - | 3,082,546 | (1,641,764) |
| 2000 | 1,571,571 | 22,890 | - | 2,855,970 | (1,830,653) |
| 1999 | 2,256,466 | 82,906 | - | 2,459,628 | (1,880,189) |
| 1998 | 2,222,710 | 109,218 | - | 2,451,593 | (1,501,623) |

(1) Fiscal years prior to 2005 were not restated for investments in joint ventures.

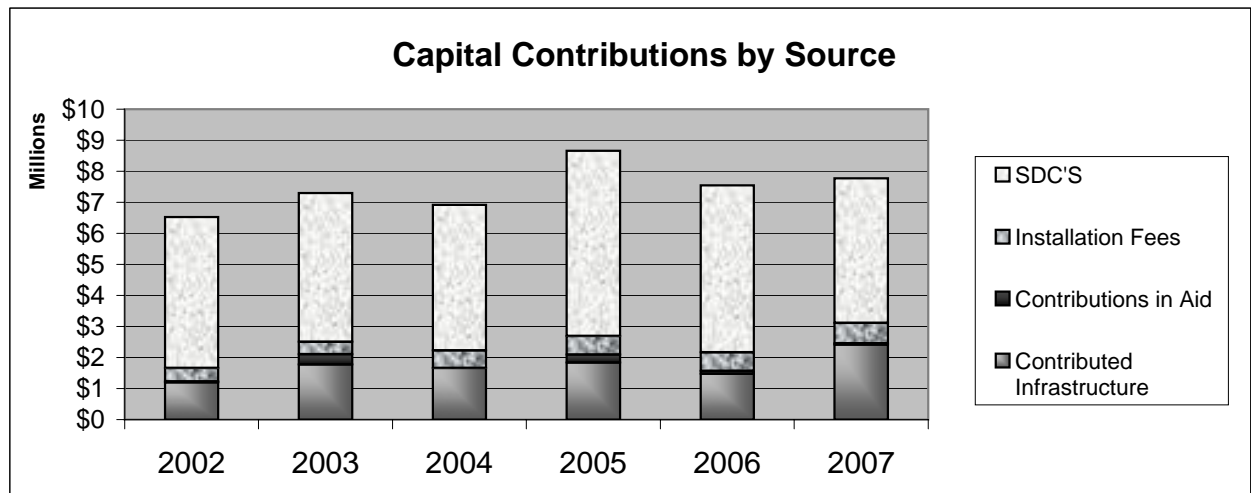
| <i>Disposal Of Capital Assets, Net</i> | <i>Beaverton Buy-Back Of Capacity</i> | <i>Other, Net</i> | <i>Total Non-Operating Revenues (Expenses)</i> |
|--|---|-----------------------|--|
| \$ 166,884 | \$ - | \$ (28,558) | \$ 1,675,742 |
| 66,162 | - | (497) | 882,774 |
| (29,713) | - | 2,398 | 358,867 |
| 1,533,540 | - | 16,884 | 2,992,699 |
| 13,857 | - | 20,608 | 1,435,893 |
| (2,129) | - | 19,508 | 1,654,380 |
| (3,009,759) | 1,223,252 | 14,702 | 1,595,420 |
| (2,264,509) | 2,309,083 | 17,045 | 2,681,397 |
| 64,660 | - | 22,859 | 3,006,330 |
| (315,269) | - | 33,917 | 3,000,546 |

TUALATIN VALLEY WATER DISTRICT
ANNUAL CAPITAL CONTRIBUTIONS BY SOURCE
LAST TEN FISCAL YEARS

| | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| SDC'S | \$4,654,711 | \$5,387,192 | \$5,974,765 | \$4,690,898 | \$4,795,307 |
| Installation Fees | 661,499 | 596,834 | 596,817 | 560,092 | 400,282 |
| Contributions in Aid | 37,504 | 89,849 | 256,714 | 49 | 328,977 |
| Contributed Infrastructure | 2,417,393 | 1,477,647 | 1,836,082 | 1,663,892 | 1,772,815 |
| Total Contributions | \$7,771,107 | \$7,551,522 | \$8,664,378 | \$6,914,931 | \$7,297,381 |

| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| SDC'S | \$4,865,471 | \$5,012,544 | \$4,512,303 | \$5,490,305 | \$6,586,304 |
| Installation Fees | 428,408 | 633,424 | 543,931 | 561,252 | 724,296 |
| Depreciation on Contributed Assets | | (2,020,499) | (1,864,437) | (1,701,501) | (1,514,922) |
| Contributions in Aid | 38,706 | 2,127,418 | (105,180) | 35,819 | (53,340) |
| Contributed Infrastructure | 1,191,573 | 2,177,389 | 2,597,899 | 2,403,014 | 2,815,127 |
| Total Contributions | \$6,524,158 | \$7,930,276 | \$5,684,516 | \$6,788,889 | \$8,557,465 |

* In 2002, GASB 34 changed the way contributed assets are reported



TUALATIN VALLEY WATER DISTRICT
STATISTICAL SECTION - REVENUE CAPACITY

Revenue Capacity

Page

These schedules contain information to help the reader assess the District's most significant local revenue source, the District water rate.

| | |
|--|----|
| Water Produced and Consumed | 69 |
| Number of Water Customers by Type and Annual Taps Sold | 70 |
| Historic Bi-Monthly Water Rates | 71 |
| Ten Largest Customers | 72 |

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

TUALATIN VALLEY WATER DISTRICT
WATER PRODUCED AND CONSUMED
LAST TEN FISCAL YEARS

| <i>Fiscal Year End</i> | <i>Water Purchased In CCF*</i> | <i>Water Sold In CCF*</i> | <i>Water Unbilled In CCF*</i> | <i>Average Percent Unbilled</i> | <i>Total Direct Rate**</i> | | | <i>Ratio of Water Sold to Water Purchased</i> |
|------------------------|--------------------------------|---------------------------|-------------------------------|---------------------------------|----------------------------|---------------------------|-------------|---|
| | | | | | <i>Fixed Rate ***</i> | <i>Usage Rate Per CCF</i> | | |
| | | | | | | <i>Base</i> | <i>Peak</i> | |
| 2007 | 11,441,004 | 11,010,494 | 430,510 | 3.8% | \$10.92 | \$1.96 | \$2.80 | 96.2% |
| 2006 | 11,213,415 | 10,467,089 | 746,326 | 6.7% | 10.40 | 1.87 | 2.67 | 93.3% |
| 2005 | 10,829,473 | 9,909,339 | 920,134 | 8.5% | 13.88 | 1.63 | 2.61 | 91.5% |
| 2004 | 11,842,105 | 11,280,957 | 561,148 | 4.7% | 12.81 | 1.50 | 2.41 | 95.3% |
| 2003 | 11,328,723 | 10,894,160 | 434,563 | 3.8% | 12.44 | 1.46 | 2.34 | 96.2% |
| 2002 | 11,195,965 | 10,979,858 | 216,107 | 1.9% | 12.08 | 1.42 | 2.27 | 98.1% |
| 2001 | 11,553,946 | 11,286,800 | 267,146 | 2.3% | 11.74 | 1.38 | 2.20 | 97.7% |
| 2000 | 11,379,017 | 11,108,226 | 270,791 | 2.4% | 11.40 | 1.34 | 2.14 | 97.6% |
| 1999 | 11,255,107 | 10,775,173 | 479,934 | 4.3% | 10.80 | 1.30 | 2.08 | 95.7% |
| 1998 | 10,206,853 | 9,685,785 | 521,068 | 5.1% | 10.25 | 1.25 | 2.00 | 94.9% |

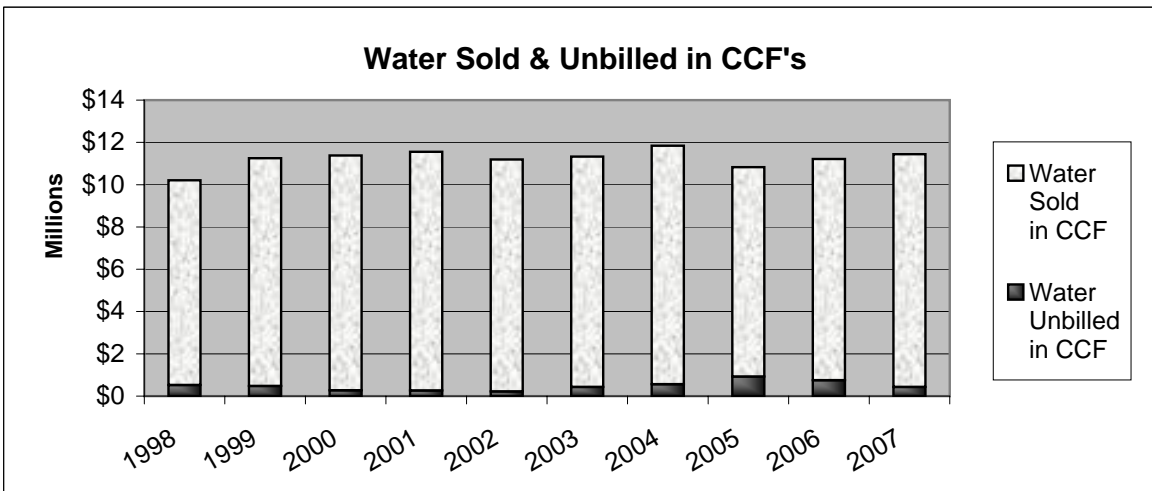
*CCF = Hundred cubic feet = 748 gallons

**Bi-monthly rate

***Rate shown is for 5/8" meters. See schedule 10 for the rates of other meter sizes.

TVWD has multiple water rates for various sizes of water meters and cannot easily calculate a weighted-average rate to present as the total direct rate; instead, it presents the rate for the most common size of meter.

Source: TUALATIN VALLEY WATER DISTRICT

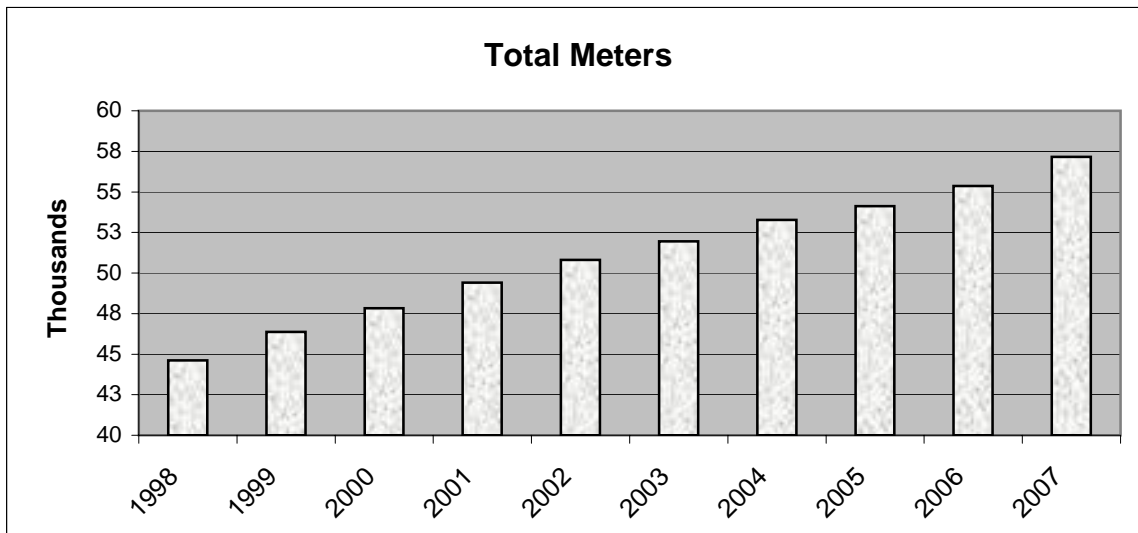


TUALATIN VALLEY WATER DISTRICT
NUMBER OF WATER CUSTOMERS BY TYPE & ANNUAL TAPS SOLD
LAST TEN FISCAL YEARS

| Year Ending June 30, | Class 1 & 2 Residential | Class 3 Commercial | Class 4 Industrial | Class 5,6,8 Other* | Total | Annual Taps Sold |
|-------------------------------------|--|-------------------------------|-------------------------------|-------------------------------|--------------|---------------------------------|
| 2007 | 53,580 | 1,427 | 38 | 1,576 | 56,621 | 1,149 |
| 2006 | 52,500 | 1,421 | 40 | 1,399 | 55,360 | 1,064 |
| 2005 | 51,339 | 1,401 | 53 | 1,323 | 54,116 | 1,255 |
| 2004 | 50,595 | 1,372 | 52 | 1,265 | 53,284 | 1,532 |
| 2003 | 49,348 | 1,356 | 55 | 1,203 | 51,962 | 818 |
| 2002 | 48,270 | 1,340 | 55 | 1,135 | 50,800 | 898 |
| 2001 | 46,950 | 1,315 | 55 | 1,079 | 49,399 | 1,600 |
| 2000 | 45,523 | 1,265 | 54 | 993 | 47,835 | 1,645 |
| 1999 | 44,154 | 1,239 | 54 | 919 | 46,366 | 1,166 |
| 1998 | 42,518 | 1,202 | 54 | 848 | 44,622 | 2,144 |

*Other = Firelines, Irrigation, and Wholesale

Source: Tualatin Valley Water District Meter & Consumption Analysis Report



TUALATIN VALLEY WATER DISTRICT

BI-MONTHLY WATER RATES

LAST TEN FISCAL YEARS

| | <i>10/31/2006 Commodity</i> | <i>11/1/2005 Commodity</i> | <i>11/1/2004 Commodity</i> | <i>11/1/2003 Commodity</i> | <i>11/1/2002 Commodity</i> |
|--------------|---------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Base Rates | 1.96/CCF | 1.87/CCF | \$1.63/CCF | \$1.50/CCF | \$1.46/CCF |
| Peak Rates** | 2.80/CCF | 2.67/CCF | \$2.61/CCF | \$2.41/CCF | \$2.34/CCF |

| <i>Meter Size</i> | <i>Bi-Monthly Fixed</i> | <i>Bi-Monthly Fixed</i> | <i>Bi-Monthly Fixed</i> | <i>Bi-Monthly Fixed</i> | <i>Bi-Monthly Fixed</i> |
|-------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 5/8" | \$10.92 | \$10.40 | \$13.88 | \$12.81 | \$12.44 |
| 3/4" * | 11.34 | 10.80 | 17.16 | 15.85 | 15.39 |
| 1" | 12.60 | 12.00 | 23.74 | 21.91 | 21.28 |
| 1-1/2" | 14.26 | 13.58 | 40.18 | 37.08 | 36.01 |
| 2" | 18.86 | 17.96 | 59.90 | 55.28 | 53.68 |
| 3" | 52.68 | 50.18 | 112.52 | 103.81 | 100.82 |
| 4" | 65.22 | 62.12 | 171.70 | 158.41 | 153.84 |
| 6" | 94.46 | 89.96 | 336.10 | 310.08 | 301.13 |
| 8" | 127.86 | 121.78 | 533.38 | 492.08 | 477.88 |
| 10" | 196.00 | 186.68 | 763.54 | 704.42 | 684.08 |

* During FY 01-02, a 3/4" x 3/4" meter was added to our customer base due to rate payer request.

The original 3/4" meter is 5/8" x 3/4".

There are 7.48 Gallons in One Cubic Foot, 748 gallons in one CCF.

** As of 11/01/2005:

Peaking rate applies to quantities used in excess of 28 CCF per 5/8" meter equivalent in a bi-monthly billing period for residential or 140% of the past twelve months average usage for multi-family, irrigation, and commercial customers classes.

Prior to 11/01/2005:

The peak allowance was 50 units per two month billing cycle for a 5/8 meter.

A 5/8" meter equivalent is a capacity of flow approximation. For example, a 1-1/2" meter can flow approximately five times the volume of water that a 5/8" meter can flow in the same time period.

Therefore, a 1-1/2" meter would be allowed 140 CCF in a bi-monthly billing period at the base rate.

Increases in water rates must be approved by the Board of Commissioners

Source: Tualatin Valley Water District

| <i>11/1/2001 Commodity</i> | <i>11/01/00 Commodity</i> | <i>11/01/99 Commodity</i> | <i>11/01/98 Commodity</i> | <i>11/01/97 Commodity</i> |
|--------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| \$1.42/CCF | \$1.38/CCF | \$1.34/CCF | \$1.30/CCF | \$1.25/CCF |
| \$2.27/CCF | \$2.20/CCF | \$2.14/CCF | \$2.08/CCF | \$2.00/CCF |

| <i>Bi-Monthly Fixed</i> | <i>Bi-Monthly Fixed</i> | <i>Bi-Monthly Fixed</i> | <i>Bi-Monthly Fixed</i> | <i>Bi-Monthly Fixed</i> |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| \$12.08 | \$11.74 | \$11.40 | \$10.80 | 10.25 |
| 14.94 | - | - | - | - |
| 20.66 | 20.08 | 19.50 | 18.53 | 17.60 |
| 34.96 | 33.98 | 33.00 | 31.40 | 29.85 |
| 52.12 | 50.66 | 49.20 | 46.85 | 44.55 |
| 97.88 | 95.14 | 92.40 | 88.05 | 83.75 |
| 149.36 | 145.18 | 141.00 | 134.40 | 127.85 |
| 292.36 | 284.18 | 276.00 | 263.15 | 250.35 |
| 463.96 | 450.98 | 438.00 | 417.65 | 397.35 |
| 664.16 | 645.58 | 627.00 | 597.90 | 568.85 |

Tualatin Valley Water District



TUALATIN VALLEY WATER DISTRICT
TEN LARGEST CUSTOMERS
CURRENT YEAR AND NINE YEARS AGO

| <u>CONSUMER</u> | <u>FISCAL YEAR 2006-07</u> | |
|--------------------------------|---|-----------------------|
| | <u>Consumption</u> <u>(CCF*)</u> | <u>Percent</u> |
| Maxim Integrated Products Inc | 267,916 | 2.43% |
| Intel Oregon | 166,489 | 1.51% |
| Providence Health Systems | 151,011 | 1.37% |
| Nike | 123,648 | 1.12% |
| Heritage Village Mobile Park | 100,363 | 0.91% |
| Resers Fine Foods | 100,346 | 0.91% |
| Tualatin Hills Park & Rec Dist | 96,912 | 0.88% |
| Teltronix | 65,820 | 0.60% |
| Simpson Property Group | 51,321 | 0.47% |
| Panzer Nursery | 47,495 | 0.43% |
| | 1,171,321 | 10.64% |
| All Other Consumers | 9,839,173 | 89.36% |
| Total | 11,010,494 | 100% |

| <u>CONSUMER</u> | <u>FISCAL YEAR 1997-98</u> | |
|---------------------------|---|-----------------------|
| | <u>Consumption</u> <u>(CCF*)</u> | <u>Percent</u> |
| City of Tigard | 448,031 | 4.63% |
| Intel | 425,457 | 4.39% |
| Tektronix | 337,337 | 3.48% |
| St. Vincent Hospital | 150,487 | 1.55% |
| Nike | 79,437 | 0.82% |
| Tualatin Hills Park & Rec | 75,553 | 0.78% |
| Reser's Fine Foods | 67,729 | 0.70% |
| Beaverton Schools | 55,019 | 0.57% |
| Washington Square | 54,155 | 0.56% |
| Panzer Nursery | 46,834 | 0.48% |
| | 1,740,039 | 17.96% |
| All other consumers | 7,945,746 | 82.04% |
| Total | 9,685,785 | 100.00% |

*CCF = Hundred cubic feet = 748 gallons.

Source: Tualatin Valley Water District

TUALATIN VALLEY WATER DISTRICT
STATISTICAL SECTION - DEBT CAPACITY

Debt Capacity

Page

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and its ability to issue additional debt in the future.

| | |
|-----------------------------------|----|
| Ratio of Outstanding Debt by Type | 74 |
| Pledged-Revenue Coverage | 75 |

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

TUALATIN VALLEY WATER DISTRICT**RATIO OF OUTSTANDING DEBT BY TYPE****LAST TEN FISCAL YEARS**

| | <i>District Population (Estimated)</i> | <i>Revenue Bonds</i> | <i>GO Bonds</i> | <i>Total</i> | <i>District Per Capita Income Ratio</i> | <i>Washington County Personal Income</i> | <i>As a Share Of Personal Income</i> |
|--------|--|--------------------------|-----------------|--------------|---|--|--|
| 2007** | 193,400 | \$19,697,737 | \$0 | \$19,697,737 | \$101.85 | \$36,988 * | 0.28% |
| 2006 | 197,200 | 21,644,850 | 0 | 21,644,850 | 109.76 | 35,737 * | 0.31% |
| 2005 | 192,700 | 26,259,370 | 890,445 | 27,149,815 | 140.89 | 34,626 | 0.41% |
| 2004 | 189,470 | 28,265,440 | 2,783,875 | 31,049,315 | 163.87 | 33,546 | 0.49% |
| 2003 | 179,000 | 30,470,610 | 4,699,210 | 35,169,820 | 196.48 | 32,105 | 0.61% |
| 2002 | 175,500 | 32,490,280 | 6,621,720 | 39,112,000 | 222.86 | 31,680 | 0.70% |
| 2001 | 169,000 | 34,516,200 | 8,546,242 | 43,062,442 | 254.81 | 32,067 | 0.79% |
| 2000 | 156,000 | 36,546,560 | 10,477,915 | 47,024,475 | 301.44 | 33,171 | 0.91% |
| 1999 | 151,500 | 38,665,081 | 12,632,360 | 51,297,441 | 338.60 | 30,878 | 1.10% |
| 1998 | 145,700 | 6,385,795 | 15,019,051 | 21,404,846 | 146.91 | 29,592 | 0.50% |

*Data not available. Estimate used

**De-annexation to City of Hillsboro (Orenco) reduced the population figure

Source: Bureau of Economic Analysis, PSU Center for Population Research, and Tualatin Valley Water District Annual Financial Statements and Records

TUALATIN VALLEY WATER DISTRICT
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS

| | <u>Revenues</u> | <u>System Development Charges</u> | <u>Gross Revenues</u> | <i>Less:</i> <u>Operating Expenses ⁽²⁾ (Excluding Depreciation)</u> | <u>Net Available Revenues</u> |
|---------------------|-----------------|---|---------------------------|---|---------------------------------------|
| 2007 | \$30,371,534 | \$4,654,711 | \$35,026,245 | \$21,033,357 | \$13,992,888 |
| 2006 | 28,167,011 | 5,387,192 | 33,554,203 | 19,412,714 | 14,141,489 |
| 2005 ⁽¹⁾ | 24,960,156 | 5,974,765 | 30,934,921 | 21,375,305 | 9,559,616 |
| 2004 | 25,577,956 | 4,690,898 | 30,268,854 | 18,447,664 | 11,821,190 |
| 2003 | 23,730,467 | 4,795,307 | 28,525,774 | 16,955,560 | 11,570,214 |
| 2002 | 22,294,205 | 4,865,471 | 27,159,676 | 16,770,248 | 10,389,428 |
| 2001 | 22,534,360 | 5,012,544 | 27,546,904 | 14,663,082 | 12,883,822 |
| 2000 | 20,793,120 | 4,512,303 | 25,305,423 | 12,618,599 | 12,686,824 |
| 1999 | 18,606,873 | 5,490,305 | 24,097,178 | 12,677,045 | 11,420,133 |
| 1998 | 17,072,739 | 6,586,304 | 23,659,043 | 12,005,915 | 11,653,128 |

(1) Fiscal years prior to 2005 were not restated for investments in joint ventures.

(2) Operating Expenses means all expenses incurred for operation, maintenance and repair of the water system, including but not limited to administration expenses, financial and auditing expenses, insurance premiums, claims (to the extent moneys are not available from proceeds of insurance), taxes, legal and engineering expenses relating to operation and maintenance, payments and reserves for pension, retirement, health, hospitalization, and sick leave benefits, credits to the rate stabilization account, and any other similar expenses to be paid to the extent properly and directly attributable to operations of the water system.

(3) Debt Service includes principal and interest of revenue bonds only. It does not include the general obligation bonds supported by property taxes.

| <i>Debt Service</i> ⁽³⁾ | | | <i>Coverage Ratio</i> | |
|------------------------------------|------------------------|---------------------|-----------------------|-------------------------|
| <u><i>Principal</i></u> | <u><i>Interest</i></u> | <u><i>Total</i></u> | <u><i>w/SDC's</i></u> | <u><i>w/o SDC's</i></u> |
| \$1,275,000 | \$672,113 | \$1,947,113 | 7.19 | 4.80 |
| 1,375,000 | 585,158 | 1,960,158 | 7.21 | 4.47 |
| 1,120,000 | 887,080 | 2,007,080 | 4.76 | 1.79 |
| 1,070,000 | 936,070 | 2,006,070 | 5.89 | 3.55 |
| 1,000,000 | 1,014,283 | 2,014,283 | 5.74 | 3.36 |
| 930,000 | 1,089,670 | 2,019,670 | 5.14 | 2.74 |
| 895,000 | 1,130,920 | 2,025,920 | 6.36 | 3.89 |
| 860,000 | 1,170,360 | 2,030,360 | 6.25 | 4.03 |
| 830,000 | 1,288,521 | 2,118,521 | 5.39 | 2.80 |
| 170,000 | 931,958 | 1,101,958 | 10.57 | 4.60 |

Tualatin Valley Water District



TUALATIN VALLEY WATER DISTRICT
STATISTICAL SECTION - DEMOGRAPHIC AND ECONOMIC INFORMATION

Demographic and Economic Information

Page

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

| | |
|--|----|
| Demographic and Economic Statistics | 77 |
| Principal Employers in Washington County, Oregon | 78 |

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

TUALATIN VALLEY WATER DISTRICT
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS

| | <i>District Population (Estimated)</i> | <u>WASHINGTON COUNTY</u> | | | <u>UNEMPLOYMENT RATE</u> | | <i>State Labor Force</i> | <i>County Labor Force</i> |
|--------|--|-----------------------------------|------------------------------|------------------------------|------------------------------|----------------------------|----------------------------------|-----------------------------------|
| | | <i>Population (Estimated)</i> | <i>Personal Income *</i> | <i>Per Capita Income</i> | <i>County</i> | <i>State of Oregon</i> | | |
| 2007** | 193,400 | 524,554 | \$19,480,939 *** | \$36,988 *** | 4.4% | 5.1% | 1,939,706 | 282,359 |
| 2006** | 197,200 | 514,269 | 18,378,244 *** | 35,737 *** | 4.6 | 5.4 | 1,914,946 | 278,029 |
| 2005 | 192,700 | 500,714 | 17,337,966 | 34,626 | 5.4 | 6.1 | 1,883,462 | 271,199 |
| 2004 | 189,470 | 487,859 | 16,365,927 | 33,546 | 6.5 | 7.5 | 1,872,895 | 266,350 |
| 2003 | 179,000 | 480,260 | 15,418,518 | 32,105 | 8.6 | 8.8 | 1,878,358 | 268,451 |
| 2002 | 175,500 | 472,623 | 14,972,521 | 31,680 | 6.9 | 7.5 | 1,853,945 | 265,091 |
| 2001 | 169,000 | 462,909 | 14,843,915 | 32,067 | 5.3 | 6.1 | 1,842,950 | 265,163 |
| 2000 | 156,000 | 448,607 | 14,880,607 | 33,171 | 4.1 | 5.2 | 1,828,209 | 258,590 |
| 1999 | 151,500 | 435,602 | 13,450,412 | 30,878 | 4.2 | 5.7 | 1,810,252 | 250,502 |
| 1998 | 145,700 | 423,985 | 12,546,657 | 29,592 | 3.9 | 5.8 | 1,797,086 | 245,602 |

Sources: Bureau of Economic Analysis, US Census Bureau, Oregon Employment Department

* Thousands of dollars

** De-annexation to City of Hillsboro (Orengo) reduced the population figure

*** Data not available. Estimate used.

TUALATIN VALLEY WATER DISTRICT
PRINCIPAL EMPLOYERS IN WASHINGTON COUNTY, OREGON
CURRENT YEAR AND NINE YEARS AGO

| <u>Employer</u> | <u>2007</u> | | | <u>1998</u> | | |
|---------------------------------------|------------------|---------------------------------|-------------|------------------|---------------------------------|-------------|
| | <u>Employees</u> | <u>Percentage of Work Force</u> | <u>Rank</u> | <u>Employees</u> | <u>Percentage of Work Force</u> | <u>Rank</u> |
| Intel Corp* | 16,740 | 5.93% | 1 | 11,000 | 4.48% | 1 |
| Providence/St. Vincent Medical Center | 14,639 ** | 5.18% | 2 | 3,400 | 1.38% | 2 |
| Fred Meyer Stores | 8,500 | 3.01% | 3 | | 0.00% | |
| Kaiser Foundation | 8,221 | 2.91% | 4 | | 0.00% | |
| Legacy Health Systems | 8,196 | 2.90% | 5 | | 0.00% | |
| Nike* | 7,648 | 2.71% | 6 | 2,906 | 1.18% | 5 |
| Wells Fargo Bank | 4,873 | 1.73% | 7 | 1,164 | 0.47% | 10 |
| Shari's Restaurant | 4,500 | 1.59% | 8 | | 0.00% | |
| Beaverton School District* | 4,129 | 1.46% | 9 | 2,982 | 1.21% | 4 |
| Portland Community College | 3,515 | 1.24% | 10 | | 0.00% | |
| Tektronix | | | | 3,378 | 1.38% | 3 |
| Epson | | | | 1,600 | 0.65% | 6 |
| GTE Northwest (Verizon) | | | | 1,330 | 0.54% | 7 |
| Pacific Coast Restaurants | | | | 1,300 | 0.53% | 8 |
| Washington County Gov't | | | | 1,300 | 0.53% | 9 |
| Total | 80,961 | 28.67% | | 30,360 | 12.36% | |

* Major Employers within the District

**Portland Metro Area

Source: Portland Development Commission/Company Websites

TUALATIN VALLEY WATER DISTRICT
STATISTICAL SECTION - OPERATING INFORMATION

Operating Information

Page

These schedules contain service data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

| | |
|--|----|
| Number of Employees by Identifiable Activity | 80 |
| Operating and Capital Indicators | 81 |

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

TUALATIN VALLEY WATER DISTRICT
NUMBER OF EMPLOYEES BY IDENTIFIABLE ACTIVITY
LAST TEN FISCAL YEARS

Full-Time-Equivalent Employees as of June 30,

2007 2006 2005 2004 2003 2002 2001 2000 1999 1998

WATER:

| | | | | | | | | | | |
|---------------|----|----|----|----|----|----|----|---|---|---|
| Telemetry | 8 | 8 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Maintenance | 14 | 14 | 14 | 12 | 13 | 13 | 13 | 9 | 9 | 9 |
| Water Quality | 3 | 3 | 3 | 3 | 2 | 2 | 2 | 2 | 2 | 2 |

**ENGINEERING/INSPECTION/
CONSTRUCTION:**

| | | | | | | | | | | |
|--------------|---|---|---|---|---|---|---|---|---|---|
| Engineering | 8 | 7 | 7 | 6 | 6 | 7 | 6 | 5 | 6 | 6 |
| Inspections | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Construction | 7 | 7 | 7 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |

ADMINISTRATION:

| | | | | | | | | | | |
|----------------------------------|----|----|----|----|----|----|----|----|----|----|
| Executive Administration | 6 | 6 | 7 | 6 | 5 | 5 | 4 | 4 | 5 | 4 |
| Human Resources | 3 | 3 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Conservation | 3 | 3 | 3 | 2 | 2 | 2 | 1 | 1 | 0 | 0 |
| Billing/Customer Service | 12 | 13 | 12 | 11 | 11 | 11 | 12 | 11 | 11 | 10 |
| Meter Reading/Field Cust Service | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 12 | 10 | 10 |
| Finance and Accounting | 9 | 8 | 9 | 9 | 9 | 9 | 6 | 6 | 7 | 7 |
| MIS | 7 | 7 | 7 | 5 | 5 | 6 | 5 | 5 | 5 | 5 |

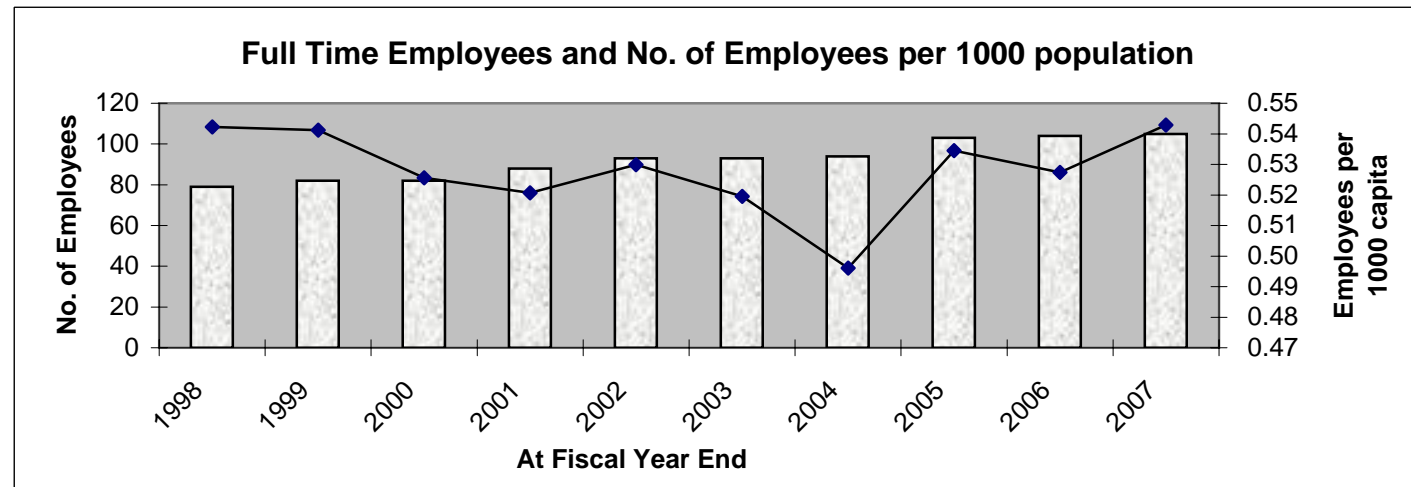
OPERATIONS ADMINISTRATION:

| | | | | | | | | | | |
|--------------------|---|---|---|---|---|---|---|---|---|---|
| Administration | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 | 1 |
| Safety & Security | 2 | 2 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Building & Grounds | 3 | 3 | 3 | 2 | 2 | 2 | 2 | 3 | 3 | 2 |
| Fleet | 2 | 2 | 2 | 2 | 2 | 1 | 2 | 2 | 2 | 2 |

TOTAL EMPLOYEES:

| | | | | | | | | | | |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 105 | 104 | 103 | 94 | 93 | 93 | 88 | 82 | 82 | 79 |
| Estimated Population | 193400 | 197200 | 192700 | 189470 | 179000 | 175500 | 169000 | 156000 | 151500 | 145700 |
| # Employees per 1000 population | 0.54 | 0.53 | 0.53 | 0.50 | 0.52 | 0.53 | 0.52 | 0.53 | 0.54 | 0.54 |

Source: Tualatin Valley Water District Payroll Records



TUALATIN VALLEY WATER DISTRICT
OPERATING AND CAPITAL INDICATORS
LAST TEN FISCAL YEARS

| | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|-------------|-------------|-------------|-------------|
| <u><i>DRINKING WATER</i></u> | | | | |
| Water Storage Capacity (MG) | 53.43 | 53.43 | 53.43 | 53.43 |
| Miles of Water Mains | 753 | 743 | 736 | 726 |
| Number of Reservoirs | 24 | 24 | 24 | 24 |
| Number of Pump Stations | 11 | 11 | 11 | 11 |
| Peak Consumption (MG) | 50.07 | 46.40 | 52.31 | 50.11 |
| Average Consumption (MGD) | 23.38 | 22.90 | 22.06 | 24.27 |
| Minimum Consumption (MG) | 12.36 | 12.40 | 8.14 | 14.65 |
| <u><i>ENGINEERING/INSPECTION/ CONSTRUCTION</i></u> | | | | |
| Inspections Conducted | 711 | 700 | 690 | 590 |

Notes: MGD=millions of gallons per day
MG = million gallons

Source: Tualatin Valley Water District Records

| <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 53.43 | 53.43 | 53.43 | 53.43 | 53.43 | 53.43 |
| 651 | 642 | 636 | 624 | 610 | 599 |
| 24 | 24 | 24 | 24 | 24 | 24 |
| 11 | 11 | 11 | 11 | 11 | 11 |
| 45.50 | 48.00 | 46.00 | 46.70 | 44.00 | 45.00 |
| 22.98 | 23.00 | 23.80 | 24.00 | 23.00 | 21.00 |
| 12.20 | 9.00 | 9.06 | 9.00 | 13.00 | 13.00 |
| 550 | 800 | 970 | 1060 | 930 | 1230 |

Tualatin Valley Water District



**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATION**

Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, and comments and disclosures required in audit reports. The required statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth in the following pages.



Talbot, Korvola & Warwick [LLP]
Certified Public Accountants & Consultants

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**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

December 11, 2007

Board of Commissioners
Tualatin Valley Water District
Beaverton, Oregon

We have audited the basic financial statements of Tualatin Valley Water District (the District), as of and for the year ended June 30, 2007, and have issued our report thereon dated December 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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ACCOUNTING RECORDS

We found the District's accounting records to be adequate for audit purposes.

ADEQUACY OF COLLATERAL SECURING DEPOSITORY BALANCES

Oregon Revised Statutes Chapter 295 requires that each depository throughout the period of its possession of public fund deposits shall maintain on deposit with its custodians, at its own expense, securities having a value not less than 25% of the certificates of participation issued by the pool manager for funds in excess of those insured by the Federal Deposit Insurance Corporation. Our review of adequacy of collateral securing depository balances indicated that collateral was sufficient during the year ended June 30, 2007.

INVESTMENTS

Our review of deposit and investment balances indicated that, during the year ended June 30, 2007, the District was in compliance with ORS 294 as it pertains to investment of public funds.

LEGAL REQUIREMENTS RELATING TO DEBT

The District is in compliance with the limitation imposed by state statute. The District has no outstanding general obligation debt.

BUDGET COMPLIANCE

The District appears to have complied with Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption and execution of its budget for the biennium ended June 30, 2007, and the preparation and adoption of its budget for the biennium ending June 30, 2009.

INSURANCE POLICIES AND FIDELITY BONDS

We have reviewed the District's insurance and fidelity bond coverage at June 30, 2007. We ascertained that such policies appeared to be in force and in compliance with legal requirements relating to insurance and fidelity bond coverage. We are not competent by training to comment on the adequacy of the insurance policies covering District-owned property at June 30, 2007.

PUBLIC CONTRACTS

The District's procedures for awarding public contracts were reviewed and found to be in accordance with ORS Chapter 279.

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OTHER

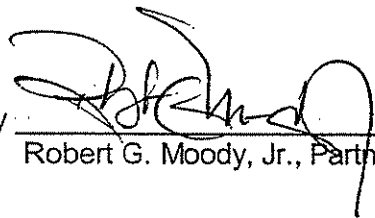
Compliance with the following is not applicable to the District:

- Highway funds
- Programs funded from outside sources
- Financial reporting requirements

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

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By



Robert G. Moody, Jr., Partner