

Willamette Water Supply System Commission

A component unit of the Tualatin Valley Water District



Financial Statements

For the fiscal years ended June 30, 2021 and 2020

Prepared by the Tualatin Valley Water District

1850 SW 170th Avenue, Beaverton, OR 97003 | www.tvwd.org/wwss

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

A component unit of the Tualatin Valley Water District
Beaverton, Oregon

Financial Statements and
Supplemental Information

Years Ended June 30, 2021 and 2020

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
Beaverton, Oregon

CONTENTS

	<u>Page</u>
Board Members	1
Report of Independent Auditors	3
Management's Discussion and Analysis	7
Basic Financial Statements:	
Statement of Net Position	14
Statement of Revenues, Expenses and Changes in Net Position	15
Statement of Cash Flows	16
Notes to Basic Financial Statements	17
Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	26
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	27
Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with Oregon Auditing Standards	29

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
Beaverton, Oregon

Board Members as of June 30, 2021

David Judah, Chair
Commissioner, City of Hillsboro Utilities Commission

James Duggan, Vice Chair
Commissioner, Tualatin Valley Water District

Lacey Beaty, Board Member
Mayor, City of Beaverton

Commission Address

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

Report of Independent Auditors

The Board of Commissioners
Willamette Water Supply System

Report on the Financial Statements

We have audited the accompanying basic financial statements of Willamette Water Supply System Commission (the “Commission”) which comprise the statement of net position as of June 30, 2021 and the related statement of revenues, expenses, and changes in net positions, and cash flows for the year then ended, and the related notes to the basic financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Willamette Water Supply System Commission as of June 30, 2021, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The schedule of revenues, expenditures, and changes in fund balance – budget and actual are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2021 on our consideration of Willamette Water Supply System Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Willamette Water Supply System Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Willamette Water Supply System Commission's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 3, 2021, on our consideration of the Commission's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Julie Desimone, Partner
For Moss Adams LLP
Portland, Oregon
December 3, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

As management of the Willamette Water Supply System Commission (Commission), a joint venture of Tualatin Valley Water District (District) and the cities of Beaverton and Hillsboro, we offer readers of the Commission's financial statements this narrative overview and analysis of the Commission's financial activities for the fiscal years ended June 30, 2021 and June 30, 2020. The Commission, a Component Unit of the District, and was formed in July 2019 to own, operate, and maintain the Willamette Water Supply System to supply potable water to the District and cities of Beaverton and Hillsboro, and potentially, other municipal water providers.

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

Financial Highlights

- Net position (assets minus liabilities) was \$262.6 million and \$169.4 million at June 30, 2021 and June 30, 2020, respectively.
- Net investment in capital assets is the largest portion of the Commission's net position. Net position increased by \$93.2 million and \$169.4 million for years ended June 30, 2021 and June 30, 2020, respectively.
- Capital Assets, non-depreciable, which is mostly construction in progress, increased by \$97.9 million and \$166.4 million for years ended June 30, 2021 and June 30, 2020, respectively.

Overview of the Financial Statements

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

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

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

**MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020**

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

Statements of Net Position

The Commission’s assets exceeded liabilities by \$262.6 million and \$169.4 million at June 30, 2021 and June 30, 2020, respectively. This represents an increase of 55%. Net investment in capital assets represents the largest portion of the Commission’s net position at \$242.6 million and \$145.1 million at June 30, 2021 and June 30, 2020, respectively. A condensed version of the statement of Net Position as of June 30, 2021 and June 30, 2020, is as follows:

Table 1

	<u>2021</u>	<u>2020</u>	<u>2021 - 2020 Change</u>
Cash and investments	\$ 2,844,135	\$ -	\$ 2,844,135
Accounts receivable	15,846,730	18,702,121	(2,855,391)
Deposits and prepaid expenses	1,355,851	1,376,753	(20,902)
Leased assets, net of accumulated amortization	13,343,574	13,703,624	(360,050)
Capital assets, non-depreciable	264,230,942	166,367,201	97,863,741
Asset held for sale	-	4,250,000	(4,250,000)
Total Assets	297,621,232	204,399,699	93,221,533
Accounts and retainage payables	20,046,716	20,078,874	(32,158)
Lease liabilities	14,970,737	14,921,781	48,956
Total Liabilities	35,017,453	35,000,655	16,798
Net investment in capital assets	242,567,101	145,089,853	97,477,247
Unrestricted	20,036,678	24,309,191	(4,272,512)
Net Position	\$ 262,603,779	\$ 169,399,044	\$ 93,204,735

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020****Statement of Revenues, Expenses and Changes in Net Position**

A condensed version of the Commission's Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2021 and June 30, 2020, is as follows:

Table 2

	<u>2021</u>	<u>2020</u>	<u>2021 - 2020 Change</u>
Administrative services	\$ 664,222	\$ 518,361	\$ 145,861
Operating expenses	<u>1,024,272</u>	<u>878,409</u>	<u>145,863</u>
Net Operating Loss	(360,050)	(360,048)	(2)
Non operating expenses	(488,655)	(436,073)	(52,582)
Capital contributions	<u>94,053,440</u>	<u>170,195,165</u>	<u>(76,141,725)</u>
Change in Net Position	93,204,735	169,399,044	(76,194,309)
Net Position, beginning of period	<u>169,399,044</u>	<u>-</u>	<u>169,399,044</u>
Net Position, end of period	<u>\$ 262,603,779</u>	<u>\$169,399,044</u>	<u>\$ 93,204,735</u>

The operating expenses for the Commission's activities totaled \$1.0 million and \$0.9 million for the years ended June 30, 2021 and June 30, 2020, respectively, a 16.6% increased from 2020. Operating expenses consist of administrative expenses and amortization expenses on lease assets. Nonoperating expenses consist mainly of interest expense for the lease liabilities and capital contributions consist of capital assets invested by the partners for the Commission.

Capital Assets

The Commission has net capital assets of approximately \$264.2 million and \$166.3 million as of June 30, 2021 and June 30, 2020, respectively. The Commission's capital assets include construction in progress of \$263.8 million and \$165.9 million as of June 30, 2021 and June 30, 2020, respectively, as well as \$0.4 million of non-depreciable easements as of June 30, 2021 and June 30, 2020.

Capital Assets, nondepreciable:	<u>2021</u>	<u>2020</u>
Construction in progress	\$ 263,791,297	\$ 165,927,556
Easements	<u>439,645</u>	<u>439,645</u>
Total Capital Assets, nondepreciable	<u>\$ 264,230,942</u>	<u>\$ 166,367,201</u>

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
Beaverton, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

Long-Term Debt Activity

As of June 30, 2021 and June 30, 2020, the Commission reported lease liabilities of \$15.0 million and \$14.9 million, respectively. The leases are for subsurface land for the placement of a raw water pipeline and office space. The Commission had no bonded indebtedness at June 30, 2021.

Economic Factors

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

Financial Contact

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

BASIC FINANCIAL STATEMENTS

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

STATEMENTS OF NET POSITION**JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and investments	\$ 2,844,135	\$ -
Accounts receivable	15,846,730	18,702,121
Prepaid expenses	1,328,414	1,349,316
Deposits	27,437	27,437
Total Current Assets	<u>20,046,716</u>	<u>20,078,874</u>
Leased assets, net of accumulated amortization	13,343,574	13,703,624
Capital assets, nondepreciable	264,230,942	166,367,201
Asset held for sale	-	4,250,000
Total Noncurrent Assets	<u>277,574,516</u>	<u>184,320,825</u>
Total Assets	297,621,232	204,399,699
LIABILITIES		
Accounts payable and accrued liabilities	17,202,581	19,294,541
Retainage payable	2,844,135	784,333
Total Current Liabilities	<u>20,046,716</u>	<u>20,078,874</u>
Lease liabilities	<u>14,970,737</u>	<u>14,921,781</u>
Total Liabilities	35,017,453	35,000,655
NET POSITION		
Net investment in capital assets	242,567,101	145,089,853
Unrestricted	<u>20,036,678</u>	<u>24,309,191</u>
Total Net Position	<u>\$ 262,603,779</u>	<u>\$ 169,399,044</u>

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

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Administrative services	\$ 664,222	\$ 518,361
OPERATING EXPENSES		
General and administrative	664,222	518,361
Depreciation and amortization	<u>360,050</u>	<u>360,048</u>
Total Operating Expenses	<u>1,024,272</u>	<u>878,409</u>
Net Operating Loss	(360,050)	(360,048)
NONOPERATING REVENUES (EXPENSES)		
Other revenue	-	48,792
Interest expense	<u>(488,655)</u>	<u>(484,865)</u>
Total Nonoperating Expenses	(488,655)	(436,073)
Capital contributions	<u>94,053,440</u>	<u>170,195,165</u>
Changes in Net Position	93,204,735	169,399,044
Net Position, beginning of period	<u>169,399,044</u>	-
Net Position, end of period	<u>\$ 262,603,779</u>	<u>\$ 169,399,044</u>

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

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Reimbursements from joint venturers	\$ 686,274	\$ 518,361
Payments to suppliers for goods and services	(643,320)	(518,361)
Net Cash Provided By Operating Activities	<u>42,954</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions from joint venturers	94,053,440	62,431,016
Capital outlay and purchases of capital assets	(93,882,731)	(62,047,861)
Proceeds from the sale of assets	3,070,171	-
Reimbursements from other agencies	-	48,792
Payments paid on leases	(439,699)	(431,947)
Net Cash Provided By Capital and Related Financing Activities	<u>2,801,181</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	2,844,135	-
Cash and Cash Equivalents, beginning of year	<u>-</u>	<u>-</u>
Cash and Cash Equivalents, end of year	<u>\$ 2,844,135</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (360,050)	\$ (360,048)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	360,050	360,048
Changes in operating accounts:		
Accounts receivable	22,052	(18,702,121)
Prepaid expenses	20,902	(1,349,316)
Deposits	-	(27,437)
Accounts payable and accrued liabilities	-	19,294,541
Retainage payable	-	784,333
Net Cash Provided By Operating Activities	<u>\$ 42,954</u>	<u>\$ -</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital assets contributed by joint venturers	\$ -	\$ 108,569,340
Leased assets transferred in by joint venturers	-	14,063,672
Lease liability transferred in by joint venturers	-	(14,868,864)
Equity in leases transferred in	-	805,192

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

NOTES TO BASIC FINANCIAL STATEMENTS

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

The District holds a majority equity interest in the Commission; therefore, the Commission is considered a component unit of the District. The Commission is reported as a custodial (fiduciary) fund of the District in its Annual Comprehensive Financial Report.

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

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

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

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

Basis of Presentation and Accounting

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

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

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

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses, and other disclosures. Accordingly, actual results may differ from those estimates.

Cash and Investments

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

Accounts Receivable

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

Capital Assets

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

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

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

**NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020**

Leased Assets

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

Net Position

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

Lease Liabilities

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

Budgets

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

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
Beaverton, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

2. CAPITAL ASSETS

The Commission has invested approximately \$263.8 million and \$165.9 million in construction in progress as of June 30, 2021, and June 30, 2020, respectively, as well as \$0.4 million of easements as of June 30, 2021, and June 30, 2020.

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

	Balance June 30, 2019	Additions	Transfers	Disposals	Balance June 30, 2020
Capital Assets, nondepreciable:					
Construction in progress	\$ -	\$165,927,556	\$ -	\$ -	\$165,927,556
Easements	-	439,645	-	-	439,645
Total Capital Assets nondepreciable	\$ -	\$166,367,201	\$ -	\$ -	\$166,367,201

At June 30, 2020, a parcel of land, not in use, had been recorded as asset held for sale and its costs removed from the overall project's costs. The Commission sold the parcel of land to Wilshire Sherwood Owner LLC. The sale of the property closed on September 30, 2020. The land was valued at and sold for \$4,250,000.

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION
Beaverton, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

3. LEASED ASSETS

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

	Balance July 1, 2020	Additions	Disposals	Balance June 30, 2021
Leased assets				
Land and easements	\$ 12,290,852	\$ -	\$ -	\$ 12,290,852
Buildings	1,772,820	-	-	1,772,820
Total leased assets	14,063,672	-	-	14,063,672
Less accumulated amortization for				
Land and easements	(128,029)	(128,030)	-	(256,059)
Buildings	(232,019)	(232,020)	-	(464,039)
Total accumulated amortization	(360,048)	(360,050)	-	(720,098)
Total leased assets being amortized, net	<u>\$ 13,703,624</u>	<u>\$ (360,050)</u>	<u>\$ -</u>	<u>\$ 13,343,574</u>

Leased assets consisted of the following at June 30, 2020, and June 30, 2019:

	Balance July 1, 2019	Additions	Disposals	Balance June 30, 2020
Leased assets				
Land and easements	\$ -	\$ 12,290,852	\$ -	\$ 12,290,852
Buildings	-	1,772,820	-	1,772,820
Total leased assets	-	14,063,672	-	14,063,672
Less accumulated amortization for				
Land and easements	-	(128,029)	-	(128,029)
Buildings	-	(232,019)	-	(232,019)
Total accumulated amortization	-	(360,048)	-	(360,048)
Total leased assets being amortized, net	<u>\$ -</u>	<u>\$ 13,703,624</u>	<u>\$ -</u>	<u>\$ 13,703,624</u>

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

**NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020**

4. LEASE LIABILITIES

The Commission entered into a lease for office space. Base rent increases by 3% per annum. The lease terminates in 2027. Commission also pays variable costs based on operating expenses which are not included in the measurement of the lease liability. In fiscal years (FY), 2021 and 2020, variable payments totaled \$5,151 and 5,823, respectively.

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

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

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	(44,752)	492,435	447,683
2023	(40,295)	496,201	455,906
2024	(35,573)	499,949	464,376
2025	(30,578)	503,678	473,100
2026	15,121,935	1,010,823	16,132,758
Total minimum lease payments	<u>\$ 14,970,737</u>	<u>\$ 3,003,086</u>	<u>\$ 17,973,823</u>

5. NET POSITION BY PARTNER

Changes in net position by partner for the years ending June 30, 2021, and June 30, 2020, is as follow:

Net Position	<u>City of Beaverton</u>	<u>City of Hillsboro</u>	<u>Tualatin Valley Water District</u>	<u>Total</u>
Loss before contributions	\$ (28,223)	\$ (309,630)	\$ (458,268)	\$ (796,121)
Contributions	9,508,277	70,584,316	90,102,572	170,195,165
Balance June 30, 2020	9,480,054	70,274,686	89,644,304	169,399,044
Loss before contributions	(42,350)	(306,298)	(500,057)	(848,705)
Contributions	5,097,251	33,670,508	55,285,681	94,053,440
Balance June 30, 2021	<u>\$ 14,534,955</u>	<u>\$ 103,638,896</u>	<u>\$ 144,429,928</u>	<u>\$ 262,603,779</u>

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

**NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020**

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

	<u>2021</u>	<u>2020</u>
Capital assets, net	\$ 264,230,942	\$ 166,367,201
Leased assets, net	13,343,574	13,703,624
Less: lease liabilities	(14,970,737)	(14,921,781)
Less: retainage payable	(2,844,135)	(784,333)
Less: capital related accounts payable	(17,192,543)	(19,274,858)
Net investment in capital assets	<u>\$ 242,567,101</u>	<u>\$ 145,089,853</u>

6. OTHER INFORMATION

Risk Management

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

Related-party Transactions

The Commission paid \$2.6 million and \$3.0 million in management fees for operations and construction in process for services provided by the District for years ended June 30, 2021, and June 30, 2020, respectively. Administrative services revenue and contributions from partners were as follows for the years ended June 30:

	Administrative Service Revenue & Contributions	
	<u>2021</u>	<u>2020</u>
City of Beaverton	\$ 5,148,764	\$ 9,585,642
City of Hillsboro	33,908,349	70,766,713
Tualatin Valley Water District	55,660,549	90,361,172
Contributions from Venturers	<u>\$ 94,717,662</u>	<u>\$ 170,713,527</u>

The Commission has entered into various contracts related to the construction of the Willamette Water Supply System (WWSS). Total outstanding commitments on contracts with greater than \$1.0 million outstanding is approximately \$176 million, (\$67 million is for ancillary projects for city of Beaverton and the District) and \$175 million as of June 30, 2021, and June 30, 2020, respectively.

SUPPLEMENTAL INFORMATION

WILLAMETTE WATER SUPPLY SYSTEM COMMISSION

Beaverton, Oregon

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2021

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Administrative Services	\$ 888,555	\$ 888,555	\$ 664,222	\$ (224,333)
Capital Contributions	125,763,556	125,763,556	94,053,440	(31,710,116)
Total Revenues	126,652,111	126,652,111	94,717,662	(31,934,449)
EXPENDITURES				
Materials and Services	808,555	808,555	664,222	144,333
Capital Outlay	125,763,556	125,763,556	94,053,440	31,710,116
Contingency	80,000	80,000	-	80,000
Total Expenditures	126,652,111	126,652,111	94,717,662	31,934,449
Excess (Deficiency) of revenues over expenditures, and net change in fund balance	-	-	-	-
Beginning Fund Balance	-	-	169,399,044	169,399,044
Ending Fund Balance	\$ -	\$ -	\$ 169,399,044	\$ 169,399,044

Reconciliation to Change in Net Position:

Change in Fund Balance	\$ -
Capital Outlay	94,053,440
Depreciation	(360,050)
Interest expense	(488,655)
Change in Net Position	<u>\$ 93,204,735</u>



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

The Board of Commissioners
Willamette Water Supply System Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Willamette Water Supply System Commission (the "Commission") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Willamette Water Supply System Commission's basic financial statements, and have issued our report thereon dated December 3, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in blue ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Portland, Oregon
December 3, 2021

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

Board of Commissioners
Willamette Water Supply System Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America the basic financial statements of Willamette Water Supply System Commission (the “Commission”) as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise Willamette Water Supply System Commission basic financial statements, and have issued our report thereon dated December 3, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Commission’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance of which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

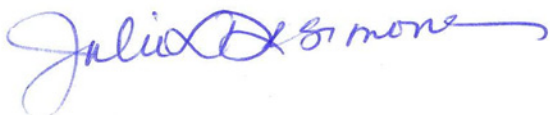
We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to:

- The accounting records and related internal control structure.
- The use of various depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption, and execution of the annual budgets for fiscal years 2020 and 2021.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

In connection with our testing nothing came to our attention that caused us to believe the Commission was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

Purpose of This Report

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



Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
December 3, 2021

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About the Willamette Water Supply System

Cities of Beaverton and Hillsboro and TVWD are developing the Willamette river at Wilsonville as an additional water supply source.



TUALATIN VALLEY
WATER DISTRICT

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