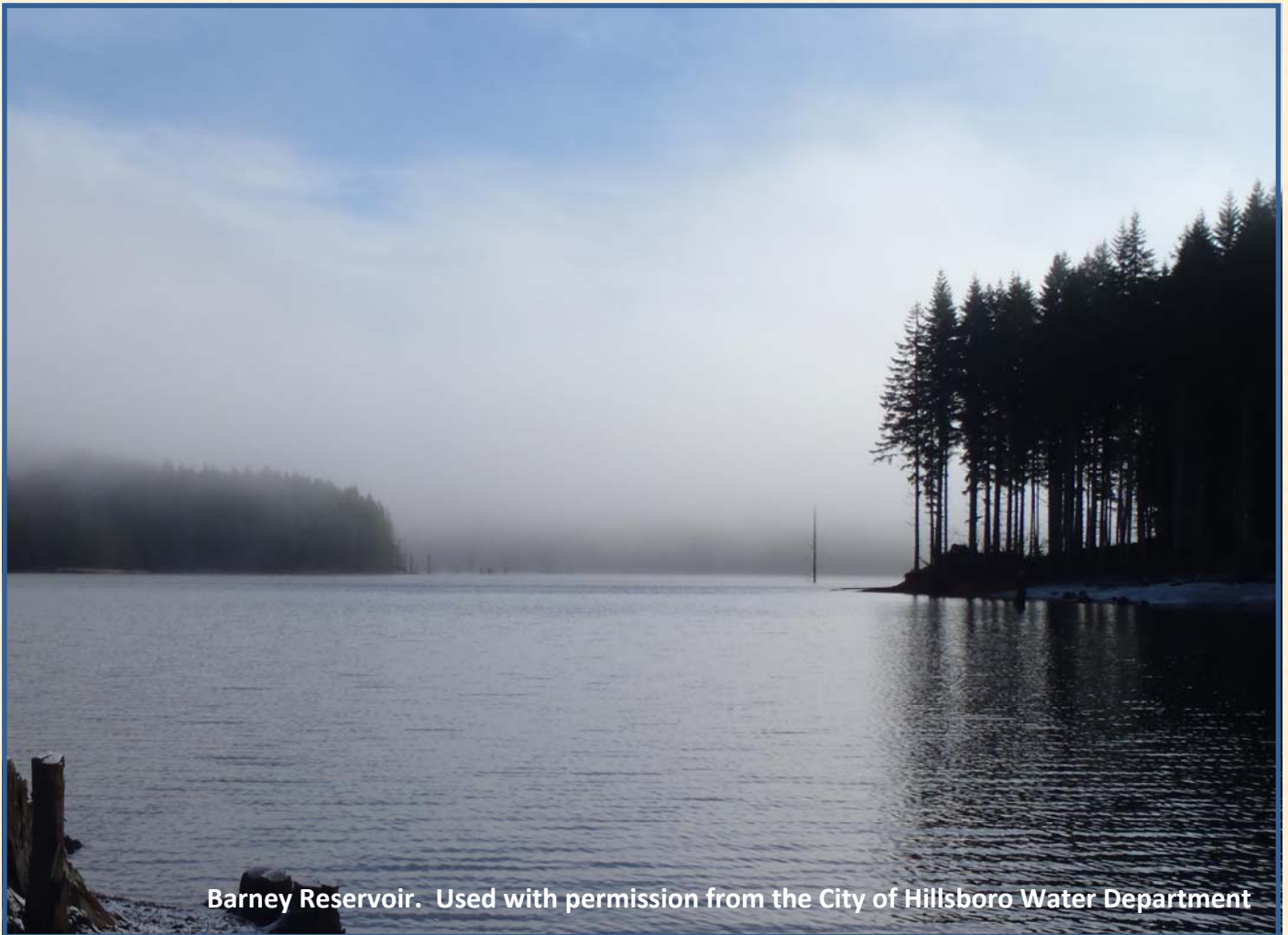


Barney Reservoir

Joint Ownership Commission



Barney Reservoir. Used with permission from the City of Hillsboro Water Department

***Hillsboro ♦ Forest Grove ♦ Beaverton ♦
Tualatin Valley Water District ♦ Clean Water Services***

Financial Statements for the Year Ended June 30, 2011

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

Basic Financial Statements
and Supplemental Information

Year Ended June 30, 2011

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

BOARD OF COMMISSIONERS

JUNE 30, 2011

John Godsey, **Chair**
3076 SE Oak St.
Hillsboro, OR 97123

Bob Cruz, **Vice Chair**
2550 SW Hillsboro Hwy.
Hillsboro, Oregon 97123

Victoria Lowe, **Vice Chair**
3206A 17th Place
Forest Grove, Oregon 97116

Dick Schmidt, **Vice Chair**
5760 SW Rosa Pl.
Aloha, OR 97007

Forrest Soth, **Vice Chair**
4890 S.W. Menlo Dr.
Beaverton, Oregon 97005

Commission Address

City of Hillsboro
150 East Main Street
Hillsboro, Oregon 97123

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

November 22, 2011

Board of Commissioners
Barney Reservoir Joint Ownership Commission
Hillsboro, Oregon

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

4800 SW Macadam Ave, Suite 400
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We have audited the accompanying basic financial statements of the Barney Reservoir Joint Ownership Commission (the Commission), as of and for the year ended June 30, 2011. These financial statements are the responsibility of the Commission'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. These 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. 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 Commission, as of June 30, 2011, and the changes in financial position and the cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Board of Commissioners
Barney Reservoir Joint Ownership Commission
Hillsboro, Oregon
November 22, 2011

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The Supplemental Information, as listed in the Table of Contents, is not a required part of the basic financial statements. Such 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.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By  _____
Robert G. Moody Jr., Partner

MANAGEMENT'S DISCUSSION AND ANALYSIS

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BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

As management of the Barney Reservoir Joint Ownership Commission (the Commission), a joint venture between the Cities of Hillsboro, Forest Grove, and Beaverton, the Tualatin Valley Water District (TVWD), and Clean Water Services (a component unit of Washington County, Oregon), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011.

Financial Highlights

- The Commission's assets totaled approximately \$28.7 million at June 30, 2011, and consisted of \$321,561 in cash and investments, and other current assets and capital assets of approximately \$28.4 million.
- Joint Venturers' Capital (assets minus liabilities) was approximately \$28.7 million at June 30, 2011.
- As of June 30, 2011, the Commission had no outstanding debt.
- Joint Venturers' Capital decreased by \$755,008 from June 30, 2010, primarily due to depreciation expense which is not recaptured from the joint venture partners.

Report Layout

Taken together, the sections of this report provide a comprehensive financial look at the Commission. The individual components of the report layout 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.** Includes the Balance Sheet, Statement of Revenues, Expenses and Changes in Joint Venturers' Capital; Statement of Cash Flows and the Notes to Basic Financial Statements. The Balance Sheet and Statement of Revenues, Expenses, and Changes in Joint Venturers' Capital 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 Balance Sheet focuses on resources available for future operations. This statement presents a snap-shot view of the assets of the Commission, the liabilities it owes and the net difference.
 - The Statement of Revenues, Expenses and Changes in Joint Venturers' Capital focuses on the current year operating results and the change in capital as a result of the current year's operations.
 - The Statement of Cash Flows focuses on how the Commission obtained and expended its available cash, cash equivalents and investments.

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2011

Report Layout (Continued)

- The Notes to Basic Financial Statements provide additional disclosures to assist the reader in understanding the Commission's financial condition.
- **Supplemental Information.** Components within this section include:
 - Budgetary Comparison. This schedule includes a comparison of actual revenues and expenditures to the original and final budget.
 - Reconciliation of revenues and expenditures to change in Joint Venturers' Capital.
- **Independent Auditor's Report Required by Oregon State Regulations.** Consists of supplemental information on the Commission's compliance and internal control as required by Oregon Revised Statutes.

Statement of Joint Venturers' Capital

The Commission's assets exceeded liabilities by approximately \$28.7 million at June 30, 2011. The largest portions of its assets were capital assets. A condensed version as of June 30 is as follows:

	<u>2011</u>	<u>2010</u>
Cash and investments	\$ 321,561	\$ 294,826
Current and other assets	45,281	95,685
Capital assets, net	<u>28,373,368</u>	<u>29,136,310</u>
Total assets	28,740,210	29,526,821
Current liabilities	<u>23,187</u>	<u>54,790</u>
Joint Venturers' Capital	<u>\$ 28,717,023</u>	<u>\$ 29,472,031</u>

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2011

Statement of Revenues, Expenses and Changes in Joint Venturers' Capital

A condensed version of the Commission's Statement of Revenues, Expenses and Changes in Joint Venturers' Capital for the fiscal years ended June 30, is as follows:

	<u>2011</u>	<u>2010</u>
Operating revenue:		
Contributions	\$ 421,926	\$ 488,826
Operating expenses:		
Payroll and fringe benefits	221,763	230,247
Other expenses	195,467	203,420
Depreciation	762,942	762,336
	<u>1,180,172</u>	<u>1,196,003</u>
Operating loss	(758,246)	(707,177)
Nonoperating income:		
Interest earnings	3,238	5,549
Change in Joint Venturers' Capital	(755,008)	(701,628)
Joint Venturers' Capital, beginning of year	29,472,031	30,173,659
Joint Venturers' Capital, end of year	<u>\$ 28,717,023</u>	<u>\$ 29,472,031</u>

The cost of the Commission's activities totaled approximately \$1.2 million for the year ended June 30, 2011, as shown in the Statement of Revenues, Expenses and Changes in Joint Venturers' Capital. The expenses, excluding depreciation, paid by operating revenues were \$417,230 for 2011. Operating revenues exceeded operating expenses by \$4,696 excluding depreciation, for 2011. The decline in Joint Venturers' Capital is primarily due to depreciation expense which is not recaptured from the partners. The Commission has elected not to fund depreciation. All operating costs, excluding depreciation expense, are charged to the partners on a monthly basis.

Capital Assets

The Commission has invested \$28,373,368 in capital assets, net of depreciation, at June 30, 2011, as reflected in the following table, which represents a net decrease of \$762,942 from 2010 which is directly related to depreciation. Capital assets are categorized at June 30, as follows:

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2011

Capital Assets (continued)

	June 30	
	<u>2011</u>	<u>2010</u>
Reservoir	\$ 9,753,566	\$ 9,753,566
Dam	28,430,937	28,430,937
Machinery and equipment	40,783	40,783
Less accumulated depreciation	<u>(9,851,918)</u>	<u>(9,088,976)</u>
Total capital assets, net	<u>\$ 28,373,368</u>	<u>\$ 29,136,310</u>

Additional information on the Commission's capital assets may be found in Notes 1 and 3 in the Notes to Basic Financial Statements.

Budgetary Highlights

There were no supplemental budgets for fiscal year 2010-2011. Additionally, no transfers of appropriations between categories or any use of contingency funds occurred during the course of the fiscal year.

Debt Administration

As of the year-end June 30, 2011, the Commission had no outstanding debt.

Economic Factors

The Commission was established as a joint venture of the cities of Hillsboro, Beaverton, and Forest Grove, TVWD and Clean Water Services in July of 1994. The purpose of the Commission is to manage the daily operations of the reservoir.

All personnel are employees of the City of Hillsboro, the managing agency for the Commission. Personnel costs continue to rise with increasing medical and retirement costs. Due to the Commission's funding structure, costs are shared by several entities in an effort to keep costs down. Personnel costs and other overhead costs are charged to all of the joint venturers; therefore, any increasing costs are spread out to all the entities lessening the impact of rising costs on the Commission. The majority of costs associated with the Commission are ongoing maintenance costs with no other major anticipated costs in the immediate future.

Financial Contact

The Commission's financial statements are designed to present users including taxpayers, citizens, customers, investors and creditors with a general overview of the Commission's finances and overall accountability. If you have questions about the contents of this report or need additional financial information, please contact the City of Hillsboro's Finance Director at 150 East Main St., Hillsboro, OR 97123.

BASIC FINANCIAL STATEMENTS

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BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

BALANCE SHEET

JUNE 30, 2011

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$	84,780
Investments		236,781
Due from joint venturers		44,353
Interest receivable		928

TOTAL CURRENT ASSETS 366,842

CAPITAL ASSETS, net 28,373,368

TOTAL ASSETS \$ 28,740,210

LIABILITIES AND JOINT VENTURERS' CAPITAL

CURRENT LIABILITIES:

Accounts payable	\$	4,768
Due to City of Hillsboro		18,419

TOTAL CURRENT LIABILITIES 23,187

JOINT VENTURERS' CAPITAL 28,717,023

TOTAL LIABILITIES AND JOINT VENTURERS' CAPITAL \$ 28,740,210

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN JOINT
VENTURERS' CAPITAL**

YEAR ENDED JUNE 30, 2011

OPERATING REVENUE:

Contributions \$ 421,926

OPERATING EXPENSES:

Salaries and fringe benefits	221,763
Support services	55,175
Contractual services	34,687
Repairs and maintenance	12,352
Operating Supplies	53,345
Insurance	22,885
Utilities	8,744
Miscellaneous	8,279
Depreciation	762,942

TOTAL OPERATING EXPENSES 1,180,172

OPERATING LOSS (758,246)

NON OPERATING INCOME:

Interest earnings 3,238

CHANGE IN JOINT VENTURERS' CAPITAL (755,008)

JOINT VENTURERS' CAPITAL, July 1, 2010 29,472,031

JOINT VENTURERS' CAPITAL, June 30, 2011 \$ 28,717,023

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Received from customers	\$ 472,075
Paid to suppliers for goods and supplies	(227,070)
Paid to related entities for goods and services	<u>(221,763)</u>
NET CASH FROM OPERATING ACTIVITIES	23,242
CASH FLOW FROM INVESTING ACTIVITIES:	
Interest received	<u>3,493</u>
NET CHANGE IN CASH, CASH EQUIVALENTS AND INVESTMENTS	26,735
CASH, CASH EQUIVALENTS AND INVESTMENTS, July 1, 2010	<u>294,826</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, June 30, 2011	<u><u>\$ 321,561</u></u>
RECONCILIATION TO BALANCE SHEET:	
Cash and cash equivalents	\$ 84,780
Investments	<u>236,781</u>
TOTAL CASH, CASH EQUIVALENTS AND INVESTMENTS	<u><u>\$ 321,561</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES:	
Operating loss	\$ (758,246)
Adjustment to reconcile operating loss to net cash from operating activities:	
Depreciation	762,942
Change in assets and liabilities:	
Decrease in due from joint venturers	50,149
Decrease in accounts payable	(26,311)
Decrease in due to City of Hillsboro	<u>(5,292)</u>
NET CASH FROM OPERATING ACTIVITIES	<u><u>\$ 23,242</u></u>

See notes to basic financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Barney Reservoir Joint Ownership Commission (the Commission) was organized under Oregon Revised Statute (ORS) 225.050 by an agreement between the Cities of Hillsboro, Forest Grove, and Beaverton, Tualatin Valley Water District (TVWD), and Clean Water Services (a Component Unit of Washington County). The purpose of the Commission is to own and operate the J.W. Barney Reservoir.

All operating expenses, capital asset acquisitions and net income or loss is allocated to the respective joint venturers by the following percentages:

City of Hillsboro	31	%	Tualatin Valley Water District	35	%
City of Forest Grove	2 1/2	%	Clean Water Services	10	%
City of Beaverton	21 1/2	%			

The Commission is managed by the City of Hillsboro.

Basis of Presentation and Accounting

For financial reporting purposes, the Commission reports its operations on an enterprise fund basis. Enterprise funds (a proprietary fund type) are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and joint venturers' capital associated with the operations are included on the Balance Sheet. The Statement of Revenues, Expenses and Changes in Joint Venturers' Capital present increases (revenues) and decreases (expenses) in joint venturers' capital.

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

The Commission has applied all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements. FASB guidance issued after November 30, 1989, has not been applied as allowed by GASB Statement No. 20.

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.

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value. All cash, cash equivalents and investments are held by the City of Hillsboro on behalf of the Commission. The Commission considers these items as a demand deposit account, whereby funds may be deposited or withdrawn without prior notice or penalty. Interest earnings are allocated from the City based on the proportion of the Commission's funds to the total of the City of Hillsboro funds.

Capital Assets

Capital assets are recorded at cost or estimated cost if actual cost is not known. Donated capital assets are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized. All costs associated with the acquisition or construction of capital assets, including any interest costs, are contributed by the joint venturers.

The Commission defines capital assets as assets with an initial cost of more than \$15,000 and an estimated life of one year or more. The costs of normal repairs and maintenance that do not add to the value of the assets or materially extend their lives are not capitalized.

Depreciation of the reservoir and dam are computed using the straight-line method over 50 years. Machinery and equipment is depreciated using the same method over five years.

Pension Plan

Commission employees are employees of the City of Hillsboro; therefore, no pension costs are attributable to the Commission.

Budgets

Under ORS 294.316, municipal public utilities operating under separate commissions authorized under ORS 225 and city charters, and which have no ad valorem tax support, are not required to separately prepare and adopt a budget. Rather, such entities' budgets may be included in the city with primary managerial responsibility. Accordingly, a budget is prepared and legally adopted for the Commission as part of the total budget for the City of Hillsboro. The budget is prepared as a separate fund on the modified accrual basis of accounting.

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The types of investments in which the pool may invest are restricted by State of Oregon statutes and a City of Hillsboro Council adopted investment policy. Authorized investments include U.S. Treasury obligations including treasury notes, bonds and strips; Federal instrumentality securities from specific Federal agencies; commercial paper rated at least A-1 or an equivalent rating; corporate bonds rated at least Aa or an equivalent rating; bankers acceptances rated at least Aa or an equivalent rating; the State of Oregon Local Government Investment Pool; certificates of deposits; repurchase agreements and obligations of the states of Oregon, California, Idaho and Washington rated AA or better.

3. CAPITAL ASSETS

Capital assets are comprised of:

	Balance July 1, 2010	Increases	Balance June 30, 2011
Capital assets being depreciated:			
Reservoir	\$ 9,753,566	\$ -	\$ 9,753,566
Dam	28,430,937	-	28,430,937
Machinery and equipment	40,783	-	40,783
	<u>38,225,286</u>	<u>-</u>	<u>38,225,286</u>
Total capital assets being depreciated			
	38,225,286	-	38,225,286
Less accumulated depreciation for:			
Reservoir	(3,103,001)	(192,770)	(3,295,771)
Dam	(5,958,410)	(568,619)	(6,527,029)
Machinery and equipment	(27,565)	(1,553)	(29,118)
	<u>(9,088,976)</u>	<u>(762,942)</u>	<u>(9,851,918)</u>
Total accumulated depreciation			
	(9,088,976)	(762,942)	(9,851,918)
Total capital assets, net	<u>\$ 29,136,310</u>	<u>\$ (762,942)</u>	<u>\$ 28,373,368</u>

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

4. JOINT VENTURERS' CAPITAL

Changes in joint venturers' capital for the year were as follows:

	Balance July 1, 2010	Change in Joint Venturers' Capital	Balance June 30, 2011
City of Hillsboro	\$ 9,136,436	\$ (234,052)	\$ 8,902,384
City of Forest Grove	736,477	(18,875)	717,602
City of Beaverton	6,336,558	(162,327)	6,174,231
Tualatin Valley Water District	10,315,327	(264,253)	10,051,074
Clean Water Services	2,947,233	(75,501)	2,871,732
Total	<u>\$ 29,472,031</u>	<u>\$ (755,008)</u>	<u>\$ 28,717,023</u>

5. RELATED PARTY TRANSACTIONS

The Commission paid the City \$221,763 for salaries and benefits for services performed by the City's employees on behalf of the Commission and \$55,175 for support services.

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 the risk is retained (self-insurance). In the past three years insurance coverage has been sufficient to cover any losses.

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SUPPLEMENTAL INFORMATION

BARNEY RESERVOIR JOINT OWNERSHIP COMMISSION

Hillsboro, Oregon

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

YEAR ENDED JUNE 30, 2011

	<u>Budget</u> Original and Final	<u>Actual</u>	<u>Variance with</u> Final Budget
REVENUES:			
Contributions	\$ 477,355	\$ 421,926	\$ (55,429)
Interest	7,000	3,238	(3,762)
Total revenues	<u>484,355</u>	<u>425,164</u>	<u>(59,191)</u>
EXPENDITURES:			
Personal services	232,437	221,643	10,794
Materials and services	163,300	117,070	46,230
Capital outlay	2,000	-	2,000
Special expenditures	88,702	78,397	10,305
Contingency	356,896	-	356,896
Total expenditures	<u>843,335</u>	<u>417,110</u>	<u>426,225</u>
Excess (deficiency) of revenues over expenditures and net change in fund balance	(358,980)	8,054	367,034
FUND BALANCE, July 1, 2010	<u>358,980</u>	<u>345,374</u>	<u>(13,606)</u>
FUND BALANCE, June 30, 2011	<u>\$ -</u>	<u>\$ 353,428</u>	<u>\$ 353,428</u>

**RECONCILIATION OF CHANGE IN FUND BALANCE
TO CHANGE IN JOINT VENTURERS' CAPITAL**

YEAR ENDED JUNE 30, 2011

CHANGE IN FUND BALANCE	\$ 8,054
Deduct items to reconcile to change in Joint Venturers' Capital:	
Other salary related benefits	(120)
Depreciation	<u>(762,942)</u>
CHANGE IN JOINT VENTURERS' CAPITAL	<u>\$ (755,008)</u>

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS**

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INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

November 22, 2011

Board of Commissioners
Barney Reservoir Joint Owner Commission
Hillsboro, Oregon

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

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We have audited the basic financial statements of the Barney Reservoir Joint Ownership Commission, Hillsboro, Oregon (the Commission), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Minimum Standards for Audits of Oregon Municipal Corporations*.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial 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 the procedures to the extent we considered necessary to address the required comments and disclosures, which included, but were not limited to the following:

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Insurance and fidelity bonds in force or required by law.
- Authorized investments of public funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

In connection with our testing, nothing came to our attention that caused us to believe the 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*.

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS**

Page 2

OAR 162-10-230 INTERNAL CONTROL

In planning and performing our audit, we considered the Commission'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 Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

* * * * *

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

A handwritten signature in blue ink, appearing to read "1- [unclear] & [unclear], CPAs". The signature is written in a cursive style.

Certified Public Accountants