



Joint Water Commission



The Tualatin River. Used with permission from Clean Water Services.

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

Financial Statements for the Year Ended June 30, 2011

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**
Hillsboro, Oregon

Basic Financial Statements
and Supplemental Information

Year Ended June 30, 2011

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**
Hillsboro, Oregon

JUNE 30, 2011

BOARD OF COMMISSIONERS

John Godsey, Chair
3076 SE Oak St.
Hillsboro, Oregon 97124

Forrest Soth, Vice Chair
4890 SW Menlo Dr.
Beaverton, Oregon 97005

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

Jim Doane, Vice Chair
19155 SW Oak St.
Aloha, OR 97007

Rod Fuiten, Vice Chair
1832 Pacific Ave.
Forest Grove, Oregon 97116

John Rosenberger
533 NE Geraldine Dr.
Hillsboro, Oregon 97123

Dave Judah
650 NE Goldie Dr.
Hillsboro, Oregon 97124

Marc San Soucie
17970 NW Rapid St.
Beaverton OR 97006

Greg DiLoreto
P.O. Box 745
Beaverton, Oregon 97075

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION
Hillsboro, Oregon**

JUNE 30, 2011

BOARD OF COMMISSIONERS (Continued)

Denny Doyle
P.O. Box 4755
Beaverton, Oregon 97076

Victoria Lowe
3206A 17th Pl.
Forest Grove, Oregon 97116

Carl Heisler
3605 Pacific Avenue
Forest Grove, Oregon 97116

Commission Address

City of Hillsboro
150 E. Main Street
Hillsboro, Oregon 97123

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**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER 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
Hillsboro-Forest Grove-Beaverton-
Tualatin Valley Water District
Joint Water Commission
Hillsboro, Oregon

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

4800 SW Macadam Ave, Suite 400
Portland, Oregon 97239-3973

P 503.274.2849
F 503.274.2853

www.tkw.com

We have audited the accompanying financial statements of the Hillsboro-Forest Grove-Beaverton-Tualatin Valley Water District Joint Water 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 respective financial position of the Commission, as of June 30, 2011, and the respective 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.

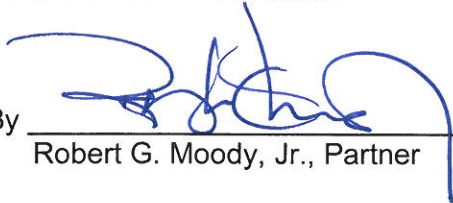
Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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
Hillsboro-Forest Grove-Beaverton-
Tualatin Valley Water District
Joint Water Commission
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 accompanying 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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**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

As management of the Hillsboro-Forest Grove-Beaverton-Tualatin Valley Water District Joint Water Commission (the Commission), a joint venture between the Cities of Hillsboro, Forest Grove, and Beaverton, and the Tualatin Valley Water District, 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 \$105.3 million at June 30, 2011 and consisted of \$698,413 in accounts receivable and capital assets of approximately \$104.6 million.
- Joint Venturers' Capital (assets minus liabilities) was approximately \$104.5 million at June 30, 2011.
- As of June 30, 2011, the Commission had no outstanding long term debt.
- Joint Venturers' Capital decreased by approximately \$1.7 million from June 30, 2010, due to expenses, specifically depreciation which is unfunded by the partners, outpacing reinvestment in the form of contributions from joint venture partners towards various capital projects.

Report Layout

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's operating results and the change in Joint Venturers' capital as a result of the current year's operations.

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2011

Report Layout (Continued)

- The Statement of Cash Flows focuses on how the Commission obtained and expended its available cash, cash equivalents, and investments.
 - The Notes to Basic Financial Statements provide additional disclosures to provide information 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 Change in Fund Balance 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 \$104.5 million at June 30, 2011. The largest portion of its assets were capital assets. A condensed version as of June 30 is as follows:

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 698,413	\$ 747,288
Capital assets, net	<u>104,553,768</u>	<u>106,152,826</u>
Total assets	<u>105,252,181</u>	<u>106,900,114</u>
Accounts payable	367,490	467,172
Due to the City of Hillsboro	<u>415,321</u>	<u>276,691</u>
Total liabilities	<u>782,811</u>	<u>743,863</u>
Joint Venturers' Capital	<u>\$ 104,469,370</u>	<u>\$ 106,156,251</u>

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2011

Statement of Joint Venturers' Capital (Continued)

Capital assets decreased by approximately \$1.6 million due to capital investment slowing down and depreciation outpacing reinvestment. Project reimbursements from partners comprise the receivable balance at year-end and payments owed to vendors makes up the majority of the accounts payable balance at year-end. Vendor payments are made in advance of seeking reimbursement from the partners.

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 as follows:

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Sale of water	\$ 5,114,688	\$ 5,048,978
Other	9,345	55,048
	<u>5,124,033</u>	<u>5,104,026</u>
Operating Expenses		
Payroll and fringe benefits	1,825,850	1,723,927
Utilities	1,468,651	1,523,827
Other expenses	1,584,799	1,692,155
Depreciation	3,043,959	3,053,804
	<u>7,923,259</u>	<u>7,993,713</u>
Operating Loss	(2,799,226)	(2,889,687)
Non Operating Expense		
Interest expense	(6,186)	(16,461)
Loss before Contributions	(2,805,412)	(2,906,148)
Contributions	<u>1,118,531</u>	<u>1,631,551</u>
Change in Joint Venturers' Capital	(1,686,881)	(1,274,597)
Joint Venturers' Capital, beginning of year	<u>106,156,251</u>	<u>107,430,848</u>
Joint Venturers' Capital, end of year	<u>\$ 104,469,370</u>	<u>\$ 106,156,251</u>

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2011

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

The cost of the Commission's activities totaled approximately \$7.9 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 \$4.9 million for 2011. However, operating expenses exceeded operating revenues by \$2.8 million for 2011. The operating loss is due to the joint venturers not being charged for depreciation expense. At this time, the Commission's Board has elected not to fund depreciation. All operating costs, excluding depreciation costs, are charged to the joint venture partners on a monthly basis.

A decrease in project activity and subsequent contributions from partners, and the election to not fund annual depreciation resulted in Joint Venturers' Capital decreasing by approximately \$1.7 million for the year ended June 30, 2011.

Capital Assets

The Commission had invested approximately \$104.6 million in capital assets, net of depreciation, at June 30, 2011, as reflected in the following table, which represents a net decrease of approximately \$1.6 million from 2010. This is due to depreciation expense outpacing reinvestment.

	<u>2011</u>	<u>2010</u>
Land	\$ 2,303,985	\$ 2,303,985
Construction in progress	1,599,271	1,711,116
Treatment facilities	43,341,045	43,049,746
Machinery and equipment	2,241,466	2,241,466
Transmission lines	71,633,411	70,367,964
Reservoir	22,401,756	22,401,756
Less accumulated depreciation	<u>(38,967,166)</u>	<u>(35,923,207)</u>
Total capital assets, net	<u>\$ 104,553,768</u>	<u>\$ 106,152,826</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.

Debt Administration

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

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2011

Economic Factors

The Commission was established as a joint venture between the cities of Hillsboro, Beaverton, and Forest Grove, and the Tualatin Valley Water District (TVWD). The purpose of the Commission is to operate raw water intake facilities, a water treatment plant and storage, and transmission facilities to the Cities and TVWD.

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.

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.

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BASIC FINANCIAL STATEMENTS

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**
Hillsboro, Oregon

BALANCE SHEET

JUNE 30, 2011

ASSETS

CURRENT ASSETS:

Accounts receivable \$ 698,413

CAPITAL ASSETS, net 104,553,768

TOTAL ASSETS \$ 105,252,181

LIABILITIES AND JOINT VENTURERS' CAPITAL

CURRENT LIABILITIES:

Accounts payable \$ 367,490

Due to City of Hillsboro 415,321

TOTAL CURRENT LIABILITIES 782,811

JOINT VENTURERS' CAPITAL 104,469,370

TOTAL LIABILITIES AND JOINT VENTURERS' CAPITAL \$ 105,252,181

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**
Hillsboro, Oregon

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

YEAR ENDED JUNE 30, 2011

OPERATING REVENUES:	
Sale of water	\$ 5,114,688
Other	9,345
	5,124,033
TOTAL OPERATING REVENUES	
OPERATING EXPENSES:	
Salaries and fringe benefits	1,825,850
Utilities	1,468,651
Operating supplies	888,344
Support services	319,690
Contractual services	36,084
Repairs and maintenance	66,522
Insurance	199,622
Fees and assessments	64,363
Other	10,174
Depreciation	3,043,959
	7,923,259
TOTAL OPERATING EXPENSES	
	(2,799,226)
OPERATING LOSS	
NONOPERATING EXPENSE:	
Interest expense	(6,186)
	(2,805,412)
LOSS BEFORE CONTRIBUTIONS	
CONTRIBUTIONS	
	1,118,531
CHANGE IN JOINT VENTURERS' CAPITAL	
	(1,686,881)
JOINT VENTURERS' CAPITAL, July 1, 2010	106,156,251
JOINT VENTURERS' CAPITAL, June 30, 2011	\$ 104,469,370

See notes to basic financial statements.

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**
Hillsboro, Oregon

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Received from customers	\$ 5,163,563
Paid to suppliers for goods and supplies	(2,686,398)
Paid to related entities for goods and services	(2,153,954)
Other operating revenues	9,345
	9,345

NET CASH FROM OPERATING ACTIVITIES 332,556

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(1,444,901)
Contributions from joint venturers	1,118,531
Interest expense	(6,186)
	(332,556)

NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES (332,556)

NET CHANGE IN CASH AND CASH EQUIVALENTS -

CASH, CASH EQUIVALENTS AND INVESTMENTS, July 1, 2010 -

CASH, CASH EQUIVALENTS AND INVESTMENTS, June 30, 2011 \$ -

**RECONCILIATION OF OPERATING LOSS TO
NET CASH FROM OPERATING ACTIVITIES:**

Operating loss	\$ (2,799,226)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	3,043,959
Change in assets and liabilities:	
Decrease in accounts receivable	48,875
Decrease in accounts payable	(99,682)
Increase in due to City of Hillsboro	138,630
NET CASH FROM OPERATING ACTIVITIES	\$ 332,556

NOTES TO BASIC FINANCIAL STATEMENTS

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**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**
Hillsboro, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Hillsboro-Forest Grove-Beaverton -Tualatin Valley Water District Joint Water Commission (the Commission) was organized under Oregon Revised Statute (ORS) 190 and was established by an agreement between the cities of Hillsboro, Forest Grove, and Beaverton, and the Tualatin Valley Water District (TVWD). The Commission is governed by three members from each venturer. The purpose of the Commission is to operate raw water intake facilities, the water treatment plant, storage and transmission facilities to the venturers.

The Commission is managed by the City of Hillsboro.

Operation and maintenance expense is determined on a unit basis by the Commission and each joint venturer is charged based on the number of units of water diverted into its separate system. All operating expenses and net income or loss is allocated to the respective joint venturers by the following percentages:

City of Hillsboro	45 %
City of Forest Grove	13 1/3 %
City of Beaverton	25 %
Tualatin Valley Water District	16 2/3 %

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 presents 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.

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION
Hillsboro, Oregon**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

The Commission has applied all Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, unless that guidance conflicts with or contradicts Governmental Accounting Standards Board (GASB) pronouncements. All 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.

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.

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 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.

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**
Hillsboro, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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 on capital assets placed in service is computed on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Machinery and equipment	5
Treatment facilities	25 to 50
Transmission lines	50
Reservoir	50

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.

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.

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**
Hillsboro, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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 (as reclassified)	Increases	Transfers	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 2,303,985	\$ -	\$ -	\$ 2,303,985
Construction in progress	1,711,116	1,414,765	(1,526,610)	1,599,271
	<u>4,015,101</u>	<u>1,414,765</u>	<u>(1,526,610)</u>	<u>3,903,256</u>
Capital assets being depreciated:				
Machinery and equipment	2,241,466	-	-	2,241,466
Treatment facilities	43,049,746	30,136	261,163	43,341,045
Transmission lines	70,367,964	-	1,265,447	71,633,411
Reservoir	22,401,756	-	-	22,401,756
Total capital assets being depreciated	<u>138,060,932</u>	<u>30,136</u>	<u>1,526,610</u>	<u>139,617,678</u>
Less accumulated depreciation for:				
Machinery and equipment	(1,240,001)	(357,266)	-	(1,597,267)
Treatment facilities	(18,438,753)	(834,423)	(4,353)	(19,277,529)
Transmission lines	(13,217,256)	(1,404,232)	4,353	(14,617,135)
Reservoir	(3,027,197)	(448,038)	-	(3,475,235)
Total accumulated depreciation	<u>(35,923,207)</u>	<u>(3,043,959)</u>	<u>-</u>	<u>(38,967,166)</u>
Total capital assets being depreciated, net	<u>102,137,725</u>	<u>(3,013,823)</u>	<u>1,526,610</u>	<u>100,650,512</u>
Total capital assets, net	<u>\$ 106,152,826</u>	<u>\$ (1,599,058)</u>	<u>\$ -</u>	<u>\$ 104,553,768</u>

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER 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 are as follows:

	<u>Balance July 1, 2010</u>	<u>Loss before Contributions</u>	<u>Contributions</u>	<u>Balance, June 30, 2011</u>
City of Hillsboro	\$ 50,350,359	\$ (1,262,436)	\$ 416,227	\$ 49,504,150
City of Forest Grove	7,037,047	(373,961)	22,030	6,685,116
City of Beaverton	16,338,323	(701,353)	179,156	15,816,126
Tualatin Valley Water District	32,430,522	(467,662)	501,118	32,463,978
Total	<u>\$ 106,156,251</u>	<u>\$ (2,805,412)</u>	<u>\$ 1,118,531</u>	<u>\$ 104,469,370</u>

5. RELATED PARTY TRANSACTIONS

The Commission paid the City of Hillsboro \$1,834,264 for salary and benefits for services performed by the City's employees on behalf of the Commission, and \$319,690 for support services. The Commission owes the City \$415,321 for these services at June 30, 2011.

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

**HILLSBORO-FOREST GROVE-BEAVERTON-
TUALATIN VALLEY WATER DISTRICT
JOINT WATER COMMISSION**
Hillsboro, Oregon

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

YEAR ENDED JUNE 30, 2011

	Budget Original and Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Sale of water	\$ 5,881,195	\$ 5,114,688	\$ (766,507)
Contributions in aid of construction	2,930,001	1,118,531	(1,811,470)
Grants and donations	-	5,301	5,301
Other	500,000	4,044	(495,956)
Total revenues	9,311,196	6,242,564	(3,068,632)
EXPENDITURES:			
Personal services	1,872,557	1,834,264	38,293
Materials and services	3,423,100	2,749,468	673,632
Capital outlay	3,862,000	1,167,150	2,694,850
Special expenditures	557,426	529,568	27,858
Contingency	496,113	-	496,113
Total expenditures	10,211,196	6,280,450	3,930,746
Excess (deficiency) of revenues over expenditures	(900,000)	(37,886)	862,114
FUND BALANCE , July 1, 2010, as previously reported	900,000	161,635	(738,365)
RESTATEMENT*	-	(123,749)	(123,749)
FUND BALANCE , July 1, 2010, as restated	900,000	37,886	(862,114)
FUND BALANCE , June 30, 2011	\$ -	\$ -	\$ -

* Restatement: In a prior year, the Commission accounted for an accrual basis adjustment on the modified accrual basis budgetary statement. The restatement reverses the adjustment.

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

CHANGE IN FUND BALANCE	\$ (37,886)
Add (deduct) items to reconcile to change in joint venturers' capital:	
Depreciation	(3,043,959)
Other payroll related expense	(49,937)
Capital asset additions	1,444,901
CHANGE IN JOINT VENTURERS' CAPITAL	\$ (1,686,881)

**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 Hillsboro-
Forest Grove-Beaverton-
Tualatin-Valley Water District Joint Water Commission
Hillsboro, Oregon

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

4800 SW Macadam Ave, Suite 400
Portland, Oregon 97239-3973

P 503.274.2849
F 503.274.2853

www.tkw.com

We have audited the basic financial statements of the Hillsboro-Forest Grove-Beaverton-Tualatin Valley Water District Joint Water 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 162-10-050 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 investment of surplus 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 (Continued)**

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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 "P. K. & W. Co., LLP". The signature is written in a cursive, flowing style.

Certified Public Accountants