

**OREGON WATER WONDERLAND UNIT II
SANITARY DISTRICT**

Deschutes County, Oregon

FINANCIAL STATEMENTS

June 30, 2018

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon

DISTRICT OFFICIALS

June 30, 2018

Board of Directors

Robert Chase - President
Bend, Oregon

Elreta Humeston - Secretary
Bend, Oregon

Robert Worthean
Bend, Oregon

Michael Hanbey
Bend, Oregon

Ann Arritola
Bend, Oregon

Administration

Rick Durham
District Manager

All board members receive mail at the address listed below

Registered Agent

Rick Durham

Registered Office

55841 Swan Road
Bend, Oregon 97707
541-593-3124

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Oregon Water Wonderland Unit II Sanitary District
Deschutes County, Oregon

We have audited the accompanying financial statements of Oregon Water Wonderland Unit II Sanitary District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District basic financial statements as listed in the table of contents.

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. 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 the Oregon Water Wonderland Unit II Sanitary District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 as listed in the table of contents, 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.

INDEPENDENT AUDITOR'S REPORT – CONTINUED

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The schedule of operating expenses, and schedules of actual and budgeted transactions are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated January 16, 2019, on our consideration of the District's internal control over financial reporting and on the tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 182-10-320. 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.

Barnett & Company CPAs

John M. Barnett, CPA

Barnett & Company CPAs

By: John M. Barnett, CPA

Bend, Oregon

January 16, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Oregon Water Wonderland Unit II Sanitary District
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2018**

The management of Oregon Water Wonderland Unit II Sanitary District (District) presents this narrative of the financial activities of the District for the calendar year ended June 30, 2018. The MD&A is based on currently known facts, decisions and conditions that existed at the date of the independent auditor's report.

Financial Highlights

- Net position of the District decreased by \$119,334 in the 2017-18 fiscal year.
- The total liabilities as of June 30, 2018 were \$3,914,587, a decrease of \$124,896.
- Operating revenues of the District were \$757,721, an increase of \$19,871 over the prior year.
- Operating expenses for the fiscal year were \$768,762, of which \$372,185 was depreciation expense.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: (1) Statement of Net Position, (2) Statement of Revenues, Expenses, and Changes in Net Position and (3) Statement of Cash Flows. This report also contains Notes to the Financial Statements and Additional Supplementary Information, which includes the schedule of operating expenses, and actual and budgeted transactions for the purpose of additional analysis.

Basic Financial Statements

The basic financial statements are designed to provide the readers with a broad overview of the District's finances in a manner similar to a private-sector business.

In the basic financial statements, the District's activities are shown in one category. The District's basic function is the operation and maintenance of a sanitary facility. These activities are primarily financed through service fees paid by users.

Notes to the Basic Financial Statements

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

Additional Supplemental Information

The supplemental information provides fund financial statements that provide more detailed information about the District's operating expenses and budget to actual comparisons.

**Oregon Water Wonderland Unit II Sanitary District
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2018 - Continued**

Statement of Net Position

This statement provides information that includes all assets and liabilities of the District. In simple terms, this statement presents a snapshot view of the assets the District patrons own, the liabilities they owe and the net difference. The net difference is further separated into amounts restricted for specific purposes and undesignated amounts.

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities and deferred inflows by \$1,393,104 at June 30, 2018. The largest portion of the District's net position reflects its investment in capital assets (e.g. land, sewer system, buildings and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide sewer service to its users; consequently, these assets are not available for future spending. The remaining net assets consist of funds restricted for debt requirements and system development; the remaining balance of \$472,807 can be used to meet the District's ongoing obligations to its users.

The District's largest liability is for the repayment of revenue bonds. Current liabilities of the District consist largely of accounts payable, payroll, accrued interest expense and current portion of long-term debt.

	June 30,		2018
	2018	2017	Over (Under) 2017
Assets			
Current Assets	\$ 657,396	\$ 678,170	\$ (20,774)
Capital Assets	3,940,452	4,230,312	(289,860)
Other Assets	721,918	655,458	66,460
Total Assets	5,319,766	5,563,940	(244,174)
Liabilities			
Current Liabilities	295,356	292,625	2,731
Long-Term Liabilities	3,619,231	3,746,858	(127,627)
Total Liabilities	3,914,587	4,039,483	(124,896)
Deferred Inflows of Resources			
Revenues received but not earned	12,075	12,019	56
Net Position			
Invested in Capital Assets -			
Net of Related Debt	198,379	370,384	(172,005)
Restricted	721,918	655,458	66,460
Unrestricted	472,807	486,596	(13,789)
Net Position	\$ 1,393,104	\$ 1,512,438	\$ (119,334)

**Oregon Water Wonderland Unit II Sanitary District
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2018 - Continued**

Statement of Revenues, Expenses, and Changes in Net Position

This statement presents the operations of the District and information showing how the District's net position changed over the most recent calendar year by tracking revenues and expenses. District activities decreased net position in the current year by \$119,334.

	<u>June 30,</u>		2018
	<u>2018</u>	<u>2017</u>	Over (Under)
			<u>2017</u>
Revenues			
Service fees and other	\$ 757,721	\$ 737,850	\$ 19,871
Operating expenses	768,762	682,769	85,993
Operating Income	(11,041)	55,081	(66,122)
Other Revenue and Expense	(108,293)	(143,388)	35,095
Change in Net Position	(119,334)	(88,307)	(31,027)
Net Position - Beginning of Year	<u>1,512,438</u>	<u>1,600,745</u>	<u>(88,307)</u>
Net Position - End of Year	<u>\$ 1,393,104</u>	<u>\$ 1,512,438</u>	<u>\$ (119,334)</u>

Statement of Cash Flows

The Statement of Cash Flows presents the District cash provided (used) from Operating Activities, Capital Financing Activities, Non-Capital Activities, and Investing Activities.

	<u>June 30,</u>		Over (Under)
	<u>2018</u>	<u>2017</u>	2017
Cash Flows from Operating Activities	\$ 401,629	\$ 447,004	\$ (45,375)
Cash Flows from Capital Activities	(329,750)	(379,666)	49,916
Cash Flows from Investing Activities	31,049	24,752	6,297
Net Increase in Cash	102,928	92,090	10,838
Cash Balance - Beginning of Year	<u>1,164,720</u>	<u>1,072,630</u>	<u>92,090</u>
Cash Balance - End of Year	<u>\$ 1,267,648</u>	<u>\$ 1,164,720</u>	<u>\$ 102,928</u>
Cash Balance - End of Year			
Cash reported as current assets	\$ 545,730	\$ 509,262	\$ 36,468
Restricted cash	721,918	655,458	66,460
Total Cash	<u>\$ 1,267,648</u>	<u>\$ 1,164,720</u>	<u>\$ 102,928</u>

**Oregon Water Wonderland Unit II Sanitary District
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2018- Continued**

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets includes land and improvements, buildings, and improvements, the sewer system, vehicles, and equipment. As of June 30, 2018, the District had invested \$3,940,452 in capital assets, net of depreciation.

During the year depreciation expense for the year was \$372,185.

Debt Outstanding

As of June 30, 2018, the District had \$3,742,073 in debt outstanding. This debt is related to the construction of the sewer facilities.

Budgetary Highlights

The District prepares a budget for its general operation and maintenance. Actual revenues were over budget by \$55,158, and expenditures were over budget estimates by \$81,805.

Financial Contact

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for financial information should be addressed to:

Rick Durham, Operations Manager
Oregon Water Wonderland Unit II Sanitary District
55841 Swan Road
Bend, Oregon 97707
541-593-3124

BASIC FINANCIAL STATEMENTS

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT
Deschutes County, Oregon
STATEMENT OF NET POSITION
June 30, 2018

	General Fund	Capital Reserve Fund	Total
Assets			
Current Assets			
Cash and equity in pooled investments	\$ 400,361	145,369	545,730
Receivable, Net of allowance for doubtful accounts	106,742	-	106,742
Prepaid expenses	4,924	-	4,924
Total Current Assets	<u>512,027</u>	<u>145,369</u>	<u>657,396</u>
Capital Assets			
Capital Assets not being depreciated	448,407	-	448,407
Capital Assets net of accumulated depreciation	3,492,045	-	3,492,045
Total Capital Assets	<u>3,940,452</u>	<u>-</u>	<u>3,940,452</u>
Other Assets			
Restricted cash & equity in pooled investments	721,918	-	721,918
Total Other Assets	<u>721,918</u>	<u>-</u>	<u>721,918</u>
Total Assets	<u>5,174,397</u>	<u>145,369</u>	<u>5,319,766</u>
Liabilities			
Current Liabilities			
Accounts payable	10,469	-	10,469
Accrued payroll and payroll taxes	4,177	-	4,177
Accrued compensated absences	12,517	-	12,517
Accrued interest payable	145,351	-	145,351
Current portion - long-term debt	122,842	-	122,842
Total Current Liabilities	<u>295,356</u>	<u>-</u>	<u>295,356</u>
Long-Term Debt			
Notes payable - net of current portion	3,619,231	-	3,619,231
Total Liabilities	<u>3,914,587</u>	<u>-</u>	<u>3,914,587</u>
Deferred Inflows of Resources			
Revenues received but not earned	12,075	-	12,075
Net Position			
Investment in Capital Assets - Net of Related Debt	198,379	-	198,379
Restricted	721,918	-	721,918
Unrestricted	327,438	145,369	472,807
Total Net Position	<u>\$ 1,247,735</u>	<u>\$ 145,369</u>	<u>\$ 1,393,104</u>

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

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION

For The Year Ended June 30, 2018

	General Fund	Capital Reserve Fund	Total
Operating Revenues			
User fees	\$ 617,094	\$ -	\$ 617,094
Other	<u>140,627</u>	<u>-</u>	<u>140,627</u>
Total Operating Revenues	<u>757,721</u>	<u>-</u>	<u>757,721</u>
Operating Expenses			
Personnel expense	182,996	-	182,996
Materials and services	213,581	-	213,581
Depreciation	<u>372,185</u>	<u>-</u>	<u>372,185</u>
Total Operating Expenses	<u>768,762</u>	<u>-</u>	<u>768,762</u>
Operating Income	<u>(11,041)</u>	<u>-</u>	<u>(11,041)</u>
Non-Operating Revenues (Expense)			
Interest income	15,573	296	15,869
Gain on sale of equipment	15,236	-	15,236
Lease income	15,180	-	15,180
Interest expense	<u>(154,578)</u>	<u>-</u>	<u>(154,578)</u>
Total Non-Operating Income (Expense)	<u>(108,589)</u>	<u>296</u>	<u>(108,293)</u>
Income (Loss) Before Transfers	<u>(119,630)</u>	<u>296</u>	<u>(119,334)</u>
Transfers In	-	30,000	30,000
Transfers Out	<u>(30,000)</u>	<u>-</u>	<u>(30,000)</u>
Total Transfers	<u>(30,000)</u>	<u>30,000</u>	<u>-</u>
Change in Net Position	(149,630)	30,296	(119,334)
Net Position - Beginning of Year (Restated)	<u>1,397,365</u>	<u>115,073</u>	<u>1,512,438</u>
Net Position - End of Year	<u>\$ 1,247,735</u>	<u>\$ 145,369</u>	<u>\$ 1,393,104</u>

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

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon

STATEMENT OF CASH FLOWS

For The Year Ended June 30, 2018

	General Fund	Capital Reserve Fund	Total
Cash Flows from Operating Activities			
Cash received from users	\$ 760,416	\$ -	\$ 760,416
Cash paid for goods and services	(174,338)	-	(174,338)
Cash paid to employees	<u>(184,449)</u>	<u>-</u>	<u>(184,449)</u>
Net Cash Flows Provided by Operating Activities	<u>401,629</u>	<u>-</u>	<u>401,629</u>
Cash flows from Capital and Related Financing Activities			
Interest paid	(163,355)	-	(163,355)
Cash Transfers (to) from other funds	(30,000)	30,000	-
Acquisition of capital assets	(63,776)	-	(63,776)
Proceeds from sale and disposal of Capital Assets	15,236	-	15,236
Repayment of long-term debt	<u>(117,855)</u>	<u>-</u>	<u>(117,855)</u>
Net Cash Flows Used by Capital Financing Activities	<u>(359,750)</u>	<u>30,000</u>	<u>(329,750)</u>
Cash Flows Provided by Investing Activities			
Interest earned	15,573	296	15,869
Lease income	<u>15,180</u>	<u>-</u>	<u>15,180</u>
Net Cash Flows Provided by Investing Activities	<u>30,753</u>	<u>296</u>	<u>31,049</u>
Net Increase in Cash	72,632	30,296	102,928
Cash Balance - Beginning of Year	<u>1,049,647</u>	<u>115,073</u>	<u>1,164,720</u>
Cash Balance - End of Year	<u>\$ 1,122,279</u>	<u>\$ 145,369</u>	<u>\$ 1,267,648</u>
Reconciliation of operating income to net cash provided by (used for) operating activities			
Operating Income	\$ (11,041)	\$ -	\$ (11,041)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities			
Depreciation	372,185	-	372,185
Changes in current assets and liabilities			
Increase in accounts receivable	22,768	-	22,768
Decrease in property taxes receivable	(722)	-	(722)
Decrease in accounts payable	2,464	-	2,464
Increase in accrued payroll costs	<u>2,200</u>	<u>-</u>	<u>2,200</u>
Net Cash Flows from Operating Activities	<u>\$ 387,854</u>	<u>\$ -</u>	<u>\$ 387,854</u>
Cash and equity in pooled investments - Unrestricted (reported a Current Assets)	\$ 400,361	\$ 145,369	\$ 545,730
Cash and equity in pooled investments - Restricted (reported as Other Assets)	<u>721,918</u>	<u>-</u>	<u>721,918</u>
Cash Balance June 30, 2018	<u>\$ 1,122,279</u>	<u>\$ 145,369</u>	<u>\$ 1,267,648</u>

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

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements

June 30, 2018

Note A – Summary of Significant Accounting Policies

The financial statements of the Oregon Water Wonderland Unit II Sanitary District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the District are described below.

Reporting Entity:

Oregon Water Wonderland Unit II Sanitary District was formed October 1, 1975. The District is located in Deschutes County, Oregon, and serves an area of approximately 700 acres with an estimated 1,014 residential lots. As of June 30, 2018, 822 of the lots were connected to the system. The primary focus of the District is to provide sanitary services to patrons within the District boundary.

Measurement Focus, Basis of Accounting:

The financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of related cash flows. Grants and similar revenues are recognized if all eligibility requirements imposed by the provider have been met.

Fund Types and Major Funds:

Proprietary funds are used to account for operations which are financed and operated in a manner similar to private business enterprises. The Port reports the following major proprietary funds:

General Fund – The General fund is used to finance the general operations of the District and, subject to restrictions of the local budget law, its assets may be transferred to another fund for any authorized purpose. Principal revenue sources are user fees, and System Development Charge (SDC) fees.

Capital Reserve Fund – The purpose of this fund is to accumulate funds for future equipment purchases.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note A – Summary of Significant Accounting Policies, continued

Restricted Assets and Related Liabilities:

Assets and related liabilities restricted to specific purposes by state statute, bond indenture or otherwise are segregated on the balance sheet. These assets and liabilities are primarily restricted for debt service. All restricted assets are current. When the option is available to use restricted or unrestricted assets for any purpose, the District will use restricted assets first.

Capital Assets:

Capital assets include property, buildings and improvements, and equipment. Capital assets are defined by the District as assets with an initial cost of more than \$500 and an estimated useful life of more than one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their fair market value at the date of donation.

Buildings, equipment, and sanitary system are depreciated using the straight-line method over the estimated useful life of the asset. Estimated useful life is 15 to 50 years for buildings and system and 5 to 7 years for equipment.

Accrued Compensated Absences:

The District's full time employees are allowed to accumulate earned but unused personal leave. A liability for the unused leave is reported on the financial statements.

Operating revenues and expenses:

Revenues and expenses that are earned or incurred during the course of normal recurring business operations are classified as operating.

Deferred Outflows/Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one items that qualify for reporting in this category. Revenues received but not earned and it is reported in the statement of net position. This amount is deferred and recognized as an inflow of resources in the period that amount becomes available.

Environmental Liabilities:

The District is not aware of any environmental liabilities.

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note A – Summary of Significant Accounting Policies, continued

Cash and Investments:

Highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

The District maintains separate bank accounts for its funds and a central pool of cash and investments. This pool includes amounts in demand deposits, time certificates of deposits, and other various investments.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements. Interest income is allocated to the funds based on actual cash balances.

All cash and investments are carried at cost which equals market value. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. All of the District's investments are Level 1 assets.

A portion of the District's investments are invested in an external investment pool, The Oregon Short-Term Fund. Numerous local governments in Oregon, as well as state of Oregon agencies, participate in the Fund. The fair value of the District's position in the pool is the same as the value of the pool shares. The Fund is not registered with the U.S. Securities and Exchange Commission. The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council. The State Treasurer is the investment officer for the Council. Investments in the Fund are further governed by portfolio guidelines issued by the Fund Board.

Assessments and Accounts Receivable:

No allowance for doubtful accounts is considered necessary for the assessment accounts receivable. The District uses the direct write-off method for recognition of bad debts associated with assessments. Delinquent accounts are submitted to the County Assessor each year and are collected by the Deschutes County Tax Collector.

An allowance for doubtful accounts is recorded for uncollected connection fees.

Budget Policy:

The District budgets all funds in accordance with the requirements of State of Oregon law on the accrual basis of accounting modified for principal payments on debt, capitalized expenditures, and the recording of depreciation expense, a basis which is not consistent with generally accepted accounting principles. The District Board of Directors authorizes appropriations for each fund, setting the level by which expenditures cannot legally exceed appropriations. For each fund, personal services, materials and services, operations and maintenance, capital outlay, debt service, and transfers, are the levels of control

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note A – Summary of Significant Accounting Policies, continued

over appropriations. The detail budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories. Appropriations lapse at the end of each fiscal year.

With the approval of the Board of Directors, unexpected additional resources may be appropriated through the use of a supplemental budget. The original and supplemental budgets require budget hearings before the public, publications in newspapers, and approval by the Board of Directors. Original and supplemental budgets may be modified during the fiscal year by the use of appropriations transfers between the legal categories. Such transfers require approval by the Board of Directors.

Note B – Cash and Investments

Balance Sheet Classification:

Unrestricted cash	\$ 108,287
Unrestricted equity in pooled investments	437,443
Unrestricted cash and equity in pooled investments	<u>545,730</u>
Restricted equity in pooled investments	<u>721,918</u>
Restricted cash and equity in pooled investments	<u>721,918</u>
Total cash and equity in pooled investments	\$ 1,267,648

Deposits:

Bank demand deposits	\$ 108,137
Cash on hand and other	150
	<u>108,287</u>

Investments:

Oregon Short-Term Fund (Local Government Investment Pool)	1,013,992
Money Market Investment	145,369
	<u>1,159,361</u>
	<u>1,267,648</u>

Custodial Credit Risk – Deposits:

All of the District's bank deposits were covered by depository insurance at June 30, 2018.

Interest Rate Risk – Investments:

The District invests in a highly liquid sweep account with daily maturities. Fair value of these investments is not expected to vary greatly as interest rates change. The District has not adopted a formal investment policy addressing this risk.

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note B – Cash and Investments, continued

Credit Risk – Investments:

This is the risk that, in the event of the failure of a counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District does not have a policy that limits the amount of investments that can be held by counterparties.

The Local Government Investment Pool's credit risk is not rated. The Local Government Investment Pool is not subject to custodial credit risk because it is not evidenced by securities that exist in physical or book entry form.

Restricted Cash and Equity pooled investments:

Cash and equity pooled investments that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded in Other assets on our balance sheet.

The District's restricted cash balances consist of minimum balance requirements related to debt agreements and funds restricted for system development. The June 30, 2018 balance included cash collateral required to be held against loans from the United States Department of Agriculture (USDA).

Restricted cash balances were as follows:

	<u>June 30, 2018</u>
Restricted for:	
USDA Note #8	\$ 39,930
USDA Note #9	12,280
USDA Note #11	115,850
USDA Note #13	120,440
SDC Reimbursement Fee	332,728
SDC Improvement Fee	100,690
Total Restricted Cash	<u>\$ 721,918</u>

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note C – Accounts Receivable

The District has recorded user’s fees, connection fees, and liens due from the county as accounts receivable as of June 30, 2018. An allowance for doubtful accounts is recorded for the uncollected connection fees.

User fees		\$	90,351
Liens - Due from County			2,242
Connection fees	\$	23,867	
Allowance for doubtful accounts		<u>(9,719)</u>	<u>14,148</u>
Accounts receivable - net of allowance		<u>\$</u>	<u>106,742</u>

Of the \$90,351 in user fees in accounts receivable \$25,098 were over 60 days old as of June 30, 2018.

Note D – Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital Assets Not Being Depreciated				
Assets not in service	\$ -	\$ 4,600	\$ -	\$ 4,600
Land	<u>443,807</u>	<u>-</u>	<u>-</u>	<u>443,807</u>
	443,807	4,600	-	448,407
Capital Assets Being Depreciated				
Assets				
Buildings	949,283	-	-	949,283
Sewer system	5,830,382	80,738	-	5,911,120
Equipment	<u>1,351,092</u>	<u>3,952</u>	<u>25,514</u>	<u>1,329,530</u>
Totals	<u>8,130,757</u>	<u>84,690</u>	<u>25,514</u>	<u>8,189,933</u>
Accumulated Depreciation				
Buildings	286,607	22,792	-	309,399
Sewer system	3,166,530	266,997	18,549	3,414,978
Equipment	<u>891,115</u>	<u>82,396</u>	<u>-</u>	<u>973,511</u>
Totals	<u>4,344,252</u>	<u>\$ 372,185</u>	<u>\$ 18,549</u>	<u>4,697,888</u>
Net Book Value	<u>3,786,505</u>			<u>3,492,045</u>
Total Capital Assets	<u>\$ 4,230,312</u>			<u>\$ 3,940,452</u>

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note D – Capital Assets, continued

Depreciation is computed using the straight-line method over the estimated useful life of the assets. The following is a summary of the depreciation for the year ended June 30, 2018:

	Life	Cost	Accumulated Depreciation	Net	2017-18 Expense
Capital Assets Not Being Depreciated					
Assets not in service		\$ 4,600	\$ -	\$ 4,600	\$ -
Land		443,807	-	443,807	-
Capital Assets Being Depreciated					
Buildings	40	949,283	286,607	662,676	22,792
Sewer system	15-50	5,830,382	3,166,530	2,663,852	262,658
Equipment	5-7	1,351,092	891,115	459,977	79,763
Totals		8,130,757	4,344,252	3,786,505	365,213
Totals all Capital Assets		\$ 8,574,564	\$ 4,344,252	\$ 4,230,312	\$ 365,213

Note E – Long-Term Debt

On July 30, 2007, four revenue bonds were issued by the District for the financing of the sewer project constructed in a prior year. The total obligation was a USDA Rural Development loan of \$4,708,300. The four loans have a 30-year repayment terms at 4.125% and 4.25% interest with annual payments of \$281,210. The loan agreement requires a reserve to be established of \$28,850 per year for the first ten years until the reserve equals \$288,500. The required reserve balance as of June 30, 2018, is \$288,500.

The unobligated net revenues of the sewer utility system of the District are pledged.

Changes in the long-term debt is summarized as follows:

	Balance July 1, 2017	Additions	Payments	Balance June 30, 2018
USDA Rural Notes				
Note #8	\$ 553,375	\$ -	\$ 17,104	\$ 536,271
Note #9	163,356	-	4,978	158,378
Note #11	1,541,091	-	46,958	1,494,133
Note #13	1,602,106	-	48,816	1,553,290
Totals	\$ 3,859,928	\$ -	\$ 117,856	\$ 3,742,072

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note E – Long-Term Debt, continued

The future debt service requirements as of June 30, 2018, are as follows:

Note #8

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 17,809	\$ 22,121	\$ 39,930
2020	18,543	21,387	39,930
2021	19,308	20,622	39,930
2022	20,105	19,825	39,930
2023	20,934	18,996	39,930
2024	21,798	18,132	39,930
2025	22,697	17,233	39,930
2026	23,633	16,297	39,930
2027	24,608	15,322	39,930
2028	25,623	14,307	39,930
2029	26,680	13,250	39,930
2030	27,780	12,150	39,930
2031	28,926	11,004	39,930
2032	30,120	9,810	39,930
2033	31,362	8,568	39,930
2034	32,656	7,274	39,930
2035	34,003	5,927	39,930
2036	35,405	4,525	39,930
2037	36,866	3,064	39,930
2038	37,417	2,513	39,930
Total	<u>\$ 536,272</u>	<u>\$ 262,328</u>	<u>\$ 798,600</u>

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note E – Long-Term Debt, continued

Note #9

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 5,189	\$ 6,731	\$ 11,920
2020	5,409	6,511	11,920
2021	5,639	6,281	11,920
2022	5,879	6,041	11,920
2023	6,129	5,791	11,920
2024	6,389	5,531	11,920
2025	6,661	5,259	11,920
2026	6,944	4,976	11,920
2027	7,239	4,681	11,920
2028	7,547	4,373	11,920
2029	7,868	4,052	11,920
2030	8,202	3,718	11,920
2031	8,550	3,370	11,920
2032	8,914	3,006	11,920
2033	9,293	2,627	11,920
2034	9,688	2,232	11,920
2035	10,099	1,821	11,920
2036	10,529	1,391	11,920
2037	10,976	944	11,920
2038	11,235	477	11,712
Totals	<u>\$ 158,378</u>	<u>\$ 79,814</u>	<u>\$ 238,192</u>

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note E – Long-Term Debt, continued

Note #11

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 48,953	\$ 63,501	\$ 112,454
2020	51,034	61,420	112,454
2021	53,203	59,251	112,454
2022	55,464	56,990	112,454
2023	57,821	54,633	112,454
2024	60,279	52,175	112,454
2025	62,840	49,614	112,454
2026	65,511	46,943	112,454
2027	68,295	44,159	112,454
2028	71,198	41,256	112,454
2029	74,224	38,230	112,454
2030	77,378	35,076	112,454
2031	80,667	31,787	112,454
2032	84,095	28,359	112,454
2033	87,669	24,785	112,454
2034	91,395	21,059	112,454
2035	95,279	17,175	112,454
2036	99,329	13,125	112,454
2037	103,550	8,904	112,454
2038	105,947	4,503	110,450
Totals	<u>\$ 1,494,133</u>	<u>\$ 752,943</u>	<u>\$ 2,247,076</u>

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note E – Long-Term Debt, continued

Note #13

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	50,891	66,015	116,906
2020	53,054	63,852	116,906
2021	55,309	61,597	116,906
2022	57,660	59,246	116,906
2023	60,110	56,796	116,906
2024	62,665	54,241	116,906
2025	65,328	51,578	116,906
2026	68,104	48,802	116,906
2027	70,999	45,907	116,906
2028	74,016	42,890	116,906
2029	77,162	39,744	116,906
2030	80,441	36,465	116,906
2031	83,860	33,046	116,906
2032	87,424	29,482	116,906
2033	91,140	25,766	116,906
2034	95,013	21,893	116,906
2035	99,051	17,855	116,906
2036	103,261	13,645	116,906
2037	107,650	9,256	116,906
2038	<u>110,150</u>	<u>4,681</u>	<u>114,831</u>
Totals	<u>\$ 1,553,288</u>	<u>\$ 782,757</u>	<u>\$ 2,336,045</u>

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note E – Long-Term Debt, continued

Total All Notes

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	122,842	158,368	281,210
2020	128,041	153,169	281,210
2021	133,459	147,751	281,210
2022	139,107	142,103	281,210
2023	144,994	136,216	281,210
2024	151,130	130,080	281,210
2025	157,526	123,684	281,210
2026	164,193	117,017	281,210
2027	171,141	110,069	281,210
2028	178,384	102,826	281,210
2029	185,933	95,277	281,210
2030	193,802	87,408	281,210
2031	202,004	79,206	281,210
2032	210,553	70,657	281,210
2033	219,464	61,746	281,210
2034	228,752	52,458	281,210
2035	238,433	42,777	281,210
2036	248,524	32,686	281,210
2037	259,042	22,168	281,210
2038	<u>264,749</u>	<u>12,175</u>	<u>276,924</u>
Totals	<u>\$ 3,742,073</u>	<u>\$ 1,877,841</u>	<u>\$ 5,619,914</u>

Note F – Retirement Plan

The District Board approved a standard 457(b) plan for the employees. The District will match up to \$9,000 of employee contributions in a year. During the 2017-18 fiscal year the District's contribution to the plan was \$5,325. All employees are eligible to participate in the plan.

Note G – Deferred Revenues

The District operates its sanitary system for the benefit of users within its jurisdiction. Users are responsible for monthly payments to finance the system's operation and debt repayment. Users have advanced funds to the District in advance of the District providing the service are as follows:

June 30, 2018 balance	\$ 12,019
2017-2018 revenues received but not earned	<u>56</u>
Deferred revenue balance June 30, 2018	<u>\$ 12,075</u>

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon
Notes to Financial Statements, continued

June 30, 2018

Note H – Risk Management

The District is exposed to various risk of loss related to torts; theft or damages to and destruction of assets; errors and omissions; injury to employees; and natural disasters for which the District participates in the Special District Insurance Services (SDIS) formed in 1985 by the Special Districts Association of Oregon (SDAO). SDIS is a public entity risk pool currently operating as a common risk management and insurance program for approximately 900 special districts in the state of Oregon. SDIS is self-sustaining through member contributions and reinsures through commercial companies for excess of certain claims amounts. The District reviews the coverage periodically, and there has not been a significant reduction in coverage from the prior years. Any settlements have not exceeded coverage in the prior years.

Note I – Subsequent Events

Management evaluated all activity of the District through the report date, which is the date on which the financial statements were available to be issued and concluded that no other subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon

SCHEDULE OF OPERATING EXPENSES

For The Year Ended June 30, 2018

Personnel Expense	
Salaries and wages	
Manager	76,612
Office	23,806
Operator	39,300
Temporary Employees	108
Employee benefits	34,989
Payroll taxes	8,181
	<hr/>
Total Personal Services	\$ 182,996
Materials and Services	
Bank charges	\$ 2,587
Education and training	2,123
Fees, dues, and subscriptions	2,488
Licenses and permits	3,538
Property insurance	3,655
Travel, lodging, and meals	3,387
Administration cost	964
Accounting	5,629
Engineering	23,170
Legal	1,751
Office costs	8,805
Utilities	39,202
Plant supplies and tests	11,910
Operations maintenance and repairs	97,048
Fuel	1,878
Vehicle maintenance	5,446
	<hr/>
Total Materials and Services	\$ 213,581

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT
 Deschutes County, Oregon
 SCHEDULE OF ACTUAL AND BUDGETED TRANSACTIONS - GENERAL FUND
 BUDGETARY BASIS

For The Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance To Final Budget Over (Under)
Revenues				
User fees	\$ 622,484	\$ 622,484	\$ 617,094	\$ (5,390)
Other fees and charges	20,000	20,000	17,512	(2,488)
System development charges	75,888	75,888	123,115	47,227
Lease revenue	15,180	15,180	15,180	-
Gain on Sale of Assets	-	-	15,236	15,236
Grant Income	10,000	10,000	-	(10,000)
Interest	5,000	5,000	15,573	10,573
Total Revenues	748,552	748,552	803,710	55,158
Expenditures				
Personnel services	218,825	218,825	182,996	(35,829)
Materials and services	174,500	174,500	134,379	(40,121)
Capital outlay	157,000	157,000	162,706	5,706
Debt service	281,210	281,210	281,210	-
Contingency	10,000	10,000	-	(10,000)
Total Expenditures	841,535	841,535	761,291	(80,244)
Resources Over (Under) Expenditures	(92,983)	(92,983)	42,419	135,402
Interfund Transfers				
Transfer to Capital Reserve Account	(30,000)	(30,000)	(30,000)	-
Beginning Balance - Budgetary Basis	1,106,982	1,106,982	1,136,652	29,670
Ending Balance - Budgetary Basis	\$ 983,999	\$ 983,999	\$ 1,149,071	\$ 165,072

Amounts reported for budgetary basis are different because:

Net changes in balance - budgetary basis above	12,419
Budgetary basis reports capital outlay as expenditures. However, in the government-wide statements, the costs of construction are capitalized and reported as assets to be depreciated over their estimated useful lives	289,860
Budgetary basis does not record an expenditure for interest unit it is due. However, in the government-wide statements, interest is reported as an expenditure as it accrues.	(154,128)
Budgetary basis of general fund reports principal payments on long-term debt as an expenditures but in the government-wide statements, the payments are treated as reduction of debt.	(117,855)
Change in net position of General Fund, page 8	30,296

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Deschutes County, Oregon

**SCHEDULE OF ACTUAL AND BUDGETED TRANSACTIONS - CAPITAL RESERVE FUND
BUDGETARY BASIS**

For The Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance To Final Budget Over (Under)</u>
Revenues				
Transfers from General Fund	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Interest	-	-	296	296
Total Revenues	<u>30,000</u>	<u>30,000</u>	<u>30,296</u>	<u>296</u>
Expenditures				
Capital outlay	<u>20,000</u>	<u>20,000</u>	-	(20,000)
Total Expenditures	<u>20,000</u>	<u>20,000</u>	-	(20,000)
Resources Over (Under) Expenditures	10,000	10,000	30,296	20,296
Beginning Balance - Budgetary Basis	<u>115,000</u>	<u>115,000</u>	<u>115,073</u>	<u>73</u>
Ending Balance - Budgetary Basis	<u>\$ 125,000</u>	<u>\$ 125,000</u>	<u>\$ 145,369</u>	<u>\$ 20,369</u>
Amounts reported for budgetary basis are different because:				
Net changes in balance - budgetary basis above			<u>30,296</u>	
Change in net position of Capital Reserve Fund, page 8			<u>30,296</u>	

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Independent Auditor's Report
Required by Oregon State Regulations
June 30, 2018

Members of the Board of Directors
Oregon Water Wonderland Unit II Sanitary District
Deschutes County, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of Oregon Water Wonderland Unit II Sanitary District as of and for the year ended June 30, 2018, and have issued our report thereon dated January 16, 2019.

Compliance

As part of obtaining reasonable assurance about whether Oregon Water Wonderland Unit II Sanitary District's financial statements are free of material misstatements, 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 statements amounts. However, providing an opinion on the compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and payments.
- Budget legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Authorized investment of surplus funds.
- Public contracts and purchasing (ORS Chapters 297A, 297B, 297C).

OREGON WATER WONDERLAND UNIT II SANITARY DISTRICT

Independent Auditor's Report

Required by Oregon State Regulations - Continued

June 30, 2018

In connection with our testing, nothing came to our attention that caused us to believe that Oregon Water Wonderland Unit II Sanitary District 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 Audit of Oregon Municipal Corporations.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the Oregon Water Wonderland Unit II Sanitary District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstance for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oregon Water Wonderland Unit II Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Oregon Water Wonderland Unit II Sanitary District's internal control.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of Oregon Water Wonderland Unit II Sanitary District and the Oregon Secretary of State and is not intended to be used and should not be used by anyone other than these parties.

Barnett & Company CPAs

Barnett and Company CPAs
January 16, 2019

John M. Barnett, CPA

by: John M. Barnett, CPA