

**COOS BAY-NORTH BEND WATER BOARD  
COOS COUNTY, OREGON**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2013**

**COOS BAY-NORTH BEND WATER BOARD**  
**Coos County, Oregon**

**ANNUAL FINANCIAL REPORT**  
**For the Fiscal Year Ended June 30, 2013**

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## **BOARD OFFICIALS**

## **COOS BAY-NORTH BEND WATER BOARD**

### **BOARD OFFICIALS**

June 30, 2013

#### **BOARD OF DIRECTORS:**

Richard Vigue, Chair  
598 Anderson Avenue  
Coos Bay, Oregon 97420

J. Gregory Solarz, Vice-Chair  
2656 Stanton Street  
North Bend, Oregon 97459

Charles J. Sharps, Ph.D., Secretary  
2285 N. 14<sup>th</sup> Street  
Coos Bay, Oregon 97420

Melissa Cribbins, Member  
1800 Lincoln Road  
Coos Bay, Oregon 97420

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#### **ADMINISTRATIVE STAFF**

Rob K. Schab, General Manager

Jeffrey Howes, Finance Director

James C. Coffey, Legal Counsel

#### **REGISTERED OFFICE:**

2305 Ocean Boulevard  
P.O. Box 539  
Coos Bay, Oregon 97420

## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

November 13, 2013

To the Board of Directors of Coos Bay-North Bend Water Board:

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Coos Bay-North Bend Water Board, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Water Board's 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 financial position of the Coos Bay-North Bend Water Board as of June 30, 2013, and the respective changes in financial position and 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 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 management's discussion and analysis 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 management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

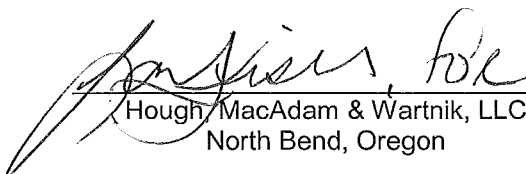
Our audit was conducted for the purpose of forming an opinion on the financial statements of the Coos Bay-North Bend Water Board. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Coos Bay-North Bend Water Board.

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

### **Other Reporting Required by Government Auditing Standards and Oregon Revised Statutes**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of the Coos Bay-North Bend Water Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Board's internal control over financial reporting and compliance.

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated November 13, 2013, on our consideration of the Coos Bay-North Bend Water Board's internal control over financial reporting and on tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 to 162-10-320. 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.



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North Bend, Oregon



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Rob K. Schab, General Manager

## Management's Discussion and Analysis

The Coos Bay-North Bend Water Board (Water Board) management staff offers readers of the Water Board's financial statements this overview and analysis of the financial activities of the Coos Bay-North Bend Water Board for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in the Water Board's Financial Statements, and associated notes.

### Financial Highlights

- Total assets of the Water Board were \$68,899,581 and \$66,037,027 as of June 30, 2013 and 2012, respectively, with the utility plant values at \$61,990,928 and \$59,082,496 net of accumulated depreciation. Current and restricted assets are \$6,877,469 and \$6,903,390; other assets are \$31,184 and \$51,141.
- The assets of the Bend Water Board exceeded its liabilities at the close of the 2013 and 2012 fiscal years by \$48,928,066 and \$47,916,673, respectively. Of these amounts, \$5,445,451 and \$4,853,641 (unrestricted net position) may be used to meet the Water Board's ongoing obligations.
- Capital assets less related debt are \$43,482,615. Revenue secured loans total \$10,000,000 and general obligation bonds total \$8,704,764 as of June 30, 2013.
- The Water Board's net position increased by \$1,011,393 from June 30, 2012 to June 30, 2013, and \$1,749,050 during the previous 2012 fiscal year.
- Total liabilities were \$19,971,515 and \$18,120,354 as of June 30, 2013 and 2012, respectively, with long-term liabilities of \$17,612,538 and \$15,528,223, and other liabilities (comprised of current liabilities and those payable from restricted assets) of \$2,358,977 and \$2,592,131 for fiscal 2013 and 2012, respectively.
- Total operating revenues for the fiscal year 2012-2013 were \$6,350,675, which is an increase of 0.2% over the prior year. The increase in revenues is the result of a rate adjustment thought to generate a 1.25% increase in revenue in fiscal year 2012-2013, as well as increased water sales.
- Total operating expenses for the fiscal year 2012-2013 and 2011-2012 were \$4,844,498 and \$4,827,153, respectively. This is an increase of 0.4% over the prior year.

### Overview of the Financial Statements

The Water Board is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Water Board'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 other supplementary information in addition to the basic financial statements themselves.

The Statement of Net Position (page 9) presents the current and long-term portions of assets and liabilities separately and may provide a useful indicator of whether the financial position of the Water Board is improving or deteriorating over time. The financial statement includes all of the Water Board's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Water Board's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and financial flexibility of the Water Board.

The Statement of Revenues, Expenses, and Changes in Net Position (page 10) presents information showing profitability and credit worthiness as well as how the Water Board's net position changed during the most recent fiscal year. This statement shows income and expenses from operations, non-operating revenues and expenses, and reconciles the change from one fiscal year to the next. This statement measures the success of the Water Board's operations over the past year and can be used to determine whether the Water Board has successfully recovered all its costs through user fees and other charges.

The Statement of Cash Flows (page 11) is prepared using the direct method (reporting revenue and expenditures as they happen) and is concerned solely with input and outlay of cash from operating activities, non-capital financing activities, capital and related financing activities and investing activities. This statement also includes a reconciliation to the Statement of Revenues, Expenses, and Changes in Net Position. The primary purpose of this statement is to provide information about the Water Board's cash receipts and cash payments during the reporting period. It answers such questions as where did the cash come from, what was the cash used for and what was the change in cash balance during the reporting period.

### Notes to the Basic Financial Statements

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

### Financial Analysis

As noted earlier, net position may serve as a useful indicator of the Water Board's financial position. In the Water Board's case, assets exceeded liabilities by \$48.9 million at the close of the most recent fiscal year, an annual increase of \$1.0 million, or 2.0%.

By far the largest portion of the Water Board's net position (90%) reflects its investment in the utility plant (e.g., land, buildings, equipment, reservoirs and pipelines); less related debt used to acquire the utility plant that is still outstanding. The Water Board uses the utility plant to provide services to ratepayers; consequently, the utility plant assets are not available for future spending. Although the Water Board's investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from services to customers (ratepayers) or other sources, since the utility plant cannot be used to liquidate these liabilities.

	<b>Net Position</b>			
	<u>2013</u>	<u>2012</u>	<u>Difference</u>	<u>%</u>
Current and other assets	\$ 6,908,653	\$ 6,954,531	\$ (45,878)	-0.7%
Utility Plant	<u>61,990,928</u>	<u>59,082,496</u>	<u>2,908,432</u>	<u>4.9%</u>
Total assets	<u>68,899,581</u>	<u>66,037,027</u>	<u>2,862,554</u>	<u>4.3%</u>
Other liabilities	2,358,977	2,592,131	(233,154)	-9.0%
Long-term liabilities	<u>17,612,538</u>	<u>15,528,223</u>	<u>2,084,315</u>	<u>13.4%</u>
Total liabilities	<u>19,971,515</u>	<u>18,120,354</u>	<u>1,851,161</u>	<u>10.2%</u>
Invested in capital assets, net of related debt	43,482,615	43,063,032	419,583	1.0%
Restricted	-	-	-	-
Unrestricted	<u>5,445,451</u>	<u>4,853,641</u>	<u>591,810</u>	<u>12.2%</u>
Total net position	<u>\$ 48,928,066</u>	<u>\$ 47,916,673</u>	<u>\$ 1,011,393</u>	<u>2.1%</u>

At June 30, 2013, capital assets net of debt totaled \$43 million, the remaining \$5.4 million of unrestricted net position may be used to meet the Water Board's ongoing obligations to ratepayers and creditors. None of the Water Board's net position represents resources that are subject to external restrictions on how they may be used.

Operating and non-operating activities increased the Water Board's net position by \$1.0 million, an increase of 2.1%.

Total operating revenues were up 0.2%. The increase is the result of rate adjustments targeted to generate a 1.25% increase in revenue in fiscal year 2012-2013, as well as increased water sales.

	2013	2012	Difference	%
Water service	\$ 6,210,922	\$ 6,197,034	\$ 13,888	0.2%
Other	139,753	143,378	(3,625)	-2.5%
Total operating revenue	6,350,675	6,340,412	10,263	0.2%
Source of supply	266,755	296,487	(29,732)	-10.0%
Power and pumping	343,639	362,430	(18,791)	-5.2%
Purification	833,646	868,536	(34,890)	-4.0%
Transmission	8,780	260	8,520	3276.9%
Distribution	671,057	639,911	31,146	4.9%
Customer's accounting and collection	785,744	751,909	33,835	4.5%
Administrative and collection	764,179	744,243	19,936	2.7%
Depreciation	1,170,698	1,163,377	7,321	0.6%
Total operating expenses	4,844,498	4,827,153	17,345	0.4%
Operating income	1,506,177	1,513,259	(7,082)	-0.5%
Interest income	18,212	24,619	(6,407)	-26.0%
Miscellaneous	92,340	468,487	(376,147)	-80.3%
Sewer service billing	116,718	112,013	4,705	4.2%
Interest expense	(719,217)	(505,864)	(213,353)	42.2%
Amortization of debt discount and expense	(17,087)	(25,961)	8,874	-34.2%
Total net non-operating (expenses)/revenue	(509,034)	73,294	(582,328)	-794.5%
Contributed capital	125,224	162,497	(37,273)	-22.9%
Change in net position	1,122,367	1,749,050	(626,683)	-35.8%
Prior period adjustment	(110,974)	-	(110,974)	100.0%
Beginning net position	47,916,673	46,167,623	1,749,050	3.8%
Ending net position	\$ 48,928,066	\$ 47,916,673	\$ 1,011,393	2.1%

Operating expenses increased in total by 0.4%. Significant expense changes from year to year are as follows:

- Source of Supply decreased -10.0% reflecting changes in both resource planning and environmental monitoring from prior to current fiscal years.
- Power and Pumping decreased -5.2% reflecting less spent on general equipment repair.
- Transmission increased 3,276.9% reflecting maintenance work that occurs on an irregular basis. Rebuilding of roads to wells and burying of transmission main occurred this year.
- Interest Income decreased -26.0% reflecting the economic conditions through the fiscal year.
- Miscellaneous Income decreased -80.3% reflecting reduced timber receipts in FY 2013. Management decided, with Board approval, to hold the harvest of timber until late 2014.
- Interest Expense increased 42.2% reflecting the interest needed to cover the servicing of the Water Treatment Plant Expansion Loan towards the end of the project.
- Amortization of Debt Discount and Expenses decreased 34.2% reflecting new GASB ruling requiring the expensing of certain cost incurred in a refinancing of debt.

Noteworthy changes in assets, liabilities, and nonoperating income and expenses are as follows:

- Other liabilities decreased -9.0% due primarily to water treatment plant construction occurring in the prior year. Therefore less invoicing occurred in the current year.
- Long-term liabilities increased 13.4% primarily from a \$10,000,000 loan for the expansion of the water treatment facility.
- During the year the Water Board implemented GASB 65, which required a prior period adjustment to net position to expense bond issuance costs which previously had been set up as a deferred debit and were being amortized over the life of the bonds. While this had an effect upon net position, cash was not affected since these costs were paid when the bonds were issued.

## **Capital Asset and Debt Administration**

### *Capital Assets (Utility Plant in Service)*

The Water Board's investment in capital assets as of June 30, 2013 amounts to \$61.9 million (net of accumulated depreciation). This investment in capital assets includes land, structures, mains, services, meters, furniture & fixtures, and various other equipment for transportation, shop, lab, and communication. The total increase in the Water Board's investment in capital assets for the current fiscal year was 4.9%.

### *A Major Capital Project*

The Pony Creek Treatment Plant Expansion project consisted of expanding the treatment plant and water delivery capacity from 8 mgd to 12 mgd, and providing enhanced treatment capabilities. Project components included a new filter, a new chemical building with chemical feed equipment and storage, various treatment process enhancements including manganese control, a new high service pump station, and new emergency standby power.

Overall project costs totaled \$12,922,600, itemized as follows: \$9,513,577 construction, \$3,017,186 engineering, \$300,000 Water Board staff and legal expenses, \$36,837 electrical service upgrade by Pacific Power, and \$55,000 Upper Pony Creek Reservoir intake improvements (SolarBee). Construction was completed in June 2013 and accepted by the Water Board of Directors at their regular meeting on August 1, 2013.

Additional information on the Water Board's capital assets (Utility Plant) can be found on page 19 of this report.

### *Long Term Debt*

At the end of the 2013 fiscal year, the Water Board had total debt outstanding of \$18.5 million. The majority of the debt is held by the City of Coos Bay and the City of North Bend on behalf of the Water Board. The refunding obligation bonds of \$8.5 million were used to fund the Water Supply Expansion Project and revenue secured loans of \$0.2 million were used to fund The Bay Crossing Pipeline Project. The Pony Creek Treatment Plant Expansion project has incurred debt of \$10 million as of June 30, 2013. On the Statement of Net Position, \$0.9 million is due within the next 2014 fiscal year and is reported under current liabilities, with the remaining \$17.6 million being reported as long-term liabilities. Additional information on the Water Board's long-term debt can be found on page 22 of the report.

### **Economic Factors and Next Year's Budget and Finances**

The Water Board operates on a zero based budget. During the budgeting process the Water Board's first step is to identify all possible capital, operational and reserve expenditures. The next step is to analyze the sources of revenue. If the revenues do not cover all the expenditures, then expenditures are analyzed again to determine what, if anything, can be reduced or deleted altogether. The major source of our income (water sales/rates) is then analyzed and adjusted to meet all proposed expenditures. Before increasing rates for the 2013 fiscal year the Water Board built in a 0.25% growth factor for the residential, multi-residential, and commercial customer classes. For the 2013 fiscal year, rates were increased to provide an increase in revenue by 1.25% to cover additional capital improvement expenditures.

### **Requests for Information**

The financial report is designed to provide a general overview of the Coos Bay-North Bend Water Board's finances. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the Finance Director, Coos Bay-North Bend Water Board; PO Box 539; Coos Bay, Oregon 97420.

## **BASIC FINANCIAL STATEMENTS**

**COOS BAY-NORTH BEND WATER BOARD**  
**STATEMENT OF NET POSITION**  
**June 30, 2013**

**ASSETS**

	<u>2013</u>
Current assets:	
Cash and cash equivalents	\$ 5,636,996
Accounts receivable:	
Customer - net	331,604
Sewer service customers	302,842
Outside surcharges	41,071
Other	25,332
Prepaid expenses	20,281
Inventory	443,703
Clearing accounts	47,775
Other work in progress	<u>27,865</u>
Total current assets	<u>6,877,469</u>
Noncurrent assets:	
Restricted cash:	
Customer water deposits	30,544
Customer project deposits	<u>640</u>
Total restricted cash	<u>31,184</u>
Utility plant:	
Utility plant (net of accumulated depreciation)	61,762,070
Construction in progress	<u>228,858</u>
Total utility plant	<u>61,990,928</u>
Total assets	<u>\$ 68,899,581</u>

The notes to the basic financial statements are an integral part of this statement.

**LIABILITIES AND NET POSITION**

	<u>2013</u>
Current liabilities (payable from current assets):	
Accounts payable	\$ 355,480
Accrued salaries, payroll taxes and insurance	84,679
Accrued interest on long-term debt	37,688
Accrued vacation	140,570
Accrued other expenses	17,439
Current portion of long-term liabilities	895,775
Due to cities of Coos Bay and North Bend:	
Sewer service collections	493,320
Sewer service receivables	<u>302,842</u>
Total current liabilities (payable from current assets)	<u>2,327,793</u>
Noncurrent liabilities (payable from restricted assets):	
Customer water deposits	30,544
Customer project deposits	<u>640</u>
Total noncurrent liabilities (payable from restricted assets)	<u>31,184</u>
Long-term liabilities:	
Bonds and loans payable (net)	<u>17,612,538</u>
Total liabilities	<u>19,971,515</u>
Net position:	
Net investment in capital assets	43,482,615
Unrestricted	<u>5,445,451</u>
Total net position	<u><u>\$ 48,928,066</u></u>

**COOS BAY-NORTH BEND WATER BOARD**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the Fiscal Year Ended June 30, 2013**

	<u>2013</u>
Operating revenues:	
Water sales	\$ 6,210,922
Other	<u>139,753</u>
Total operating revenues	<u>6,350,675</u>
Operating expenses:	
Source of supply	266,755
Power and pumping	343,639
Purification	833,646
Transmission	8,780
Distribution	671,057
Customers' accounting and collecting	785,744
Administrative and general	764,179
Depreciation	<u>1,170,698</u>
Total operating expenses	<u>4,844,498</u>
Operating income	<u>1,506,177</u>
Non-operating revenues (expenses):	
Interest income	18,212
Miscellaneous income	92,340
Sewer service billing income	116,718
Interest expense	(719,217)
Amortization of debt discount and expense	<u>(17,087)</u>
Total net non-operating revenues/(expenses)	<u>(509,034)</u>
Income before capital contributions	997,143
Capital contributions	<u>125,224</u>
Change in net position	1,122,367
Net position, beginning of the year	<u>47,916,673</u>
Prior period adjustment	<u>(110,974)</u>
Net position, beginning of year, as restated	<u>47,805,699</u>
Net position, end of the year	<u><u>\$ 48,928,066</u></u>

The notes to the basic financial statements are an integral part of this statement.

**COOS BAY-NORTH BEND WATER BOARD**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2013**

	<u>2013</u>
Cash flows from operating activities:	
Cash received from customers	\$ 6,363,443
Cash payments to employees	(2,156,730)
Cash payments to suppliers	<u>(1,971,935)</u>
Net cash provided by operating activities	<u>2,234,778</u>
Cash flows from noncapital financing activities:	
Misc income	92,340
Sewer service billing income	<u>116,718</u>
Net cash provided (used) by noncapital financing activities:	<u>209,058</u>
Cash flows from capital and related financing activities:	
Interest paid	(803,813)
Project deposits	(21,460)
Additions to plant and equipment	(4,124,214)
Disposition of equipment	(20,735)
Capital contributions (from outside parties)	125,225
Issuance of debt	2,877,988
Principal payments on long-term debt	<u>(517,202)</u>
Net cash provided by (used for) capital and related financing activities	<u>(2,484,211)</u>
Cash flows from investing activities:	
Interest on investments	<u>18,212</u>
Net increase (decrease) in cash and cash equivalents	(22,163)
Cash and cash equivalents, beginning of year (including restricted cash of \$51,141)	<u>5,690,343</u>
Cash and cash equivalents, end of year (including restricted cash of \$31,184)	<u>\$ 5,668,180</u>
 <b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 1,506,177
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,170,698
Depreciation allocated to materials and services	65,820
Changes in assets and liabilities:	
Accounts receivable	12,768
Inventory	(25,579)
Prepaid expenses	36,526
Accounts payable	(551,516)
Accrued payroll and benefits	15,813
Compensated absences payable	2,568
Customer deposits	<u>1,503</u>
Net cash provided by operating activities	<u>\$ 2,234,778</u>

The notes to the basic financial statements are an integral part of this statement.

## **COOS BAY-NORTH BEND WATER BOARD**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2013**

#### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. Reporting Entity and Nature of Operations**

The Coos Bay-North Bend Water Board (Water Board) was established through City Charter provisions in 1947. At that time, the cities of Coos Bay and North Bend jointly purchased the water system from the Coos Bay Water Corporation (a private company which provided the public water system for the Coos Bay and North Bend area dating back to 1897). The creation and full control over the operation, maintenance, and extension of the water system is granted to the Coos Bay-North Bend Water Board by the charter of each city under the provision of ORS 225.050. The Water Board operates today as a municipal water provider with a four-member board of directors, two from each city as appointed by the Mayor, with 4-year terms each.

The Water Board serves approximately 13,000 customers both inside and outside the city limits of Coos Bay and North Bend. The Water Board relies on three different surface water reservoirs in the area holding over 2 billion gallons of water in total and maintains two water treatment plants as well.

The Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Water Board considered all potential component units in determining what organizations should be included in the financial statements. Based on the criteria discussed earlier, there are no component units to include in the Water Board's financial statements.

The accounting principles of the Coos Bay-North Bend Water Board conform to the accounting principles generally accepted in the United States of America as applicable to governmental units. The Water Board complies with accounting principles generally accepted in the United States of America and applies all relevant GASB pronouncements.

##### **B. Basis of Presentation**

The accounts of the Water Board are organized and operated on the basis of a single proprietary fund. The Water Board's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-type activities provided to the general public. These activities are financed primarily by water sales and the measurement of financial activity focuses on net income measurement similar to the private sector.

##### **C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

Proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in Net Position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as Net Position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Board's enterprise funds are water sales. Operating expenses for enterprise funds include depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. See Note IIIB for discussion of sewer service charges.

When both restricted and unrestricted resources are available, it is the Water Board's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **D. Assets, Liabilities, and Net Position**

##### **1. *Cash and Investments***

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

Investments are valued at cost, which approximates fair value. No investments are recorded at amortized cost. Fair value is defined as the amount at which an investment could be exchanged between willing parties, other than in a forced or liquidation sale.

##### **2. *Cash Equivalents/Statement of Cash Flows***

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

##### **3. *Accounts Receivable***

Water revenues are recorded when billed. Billings are rendered on twelve monthly cycles for water consumption utilized as of the read date. An allowance for doubtful accounts is reviewed periodically for adequacy and was \$27,214 at June 30, 2013. The sewer service customers receivable amount consists of pass through receipts. See Note IIIB. Outside surcharges are additional fees for customers outside the city's boundaries.

##### **4. *Inventories***

Inventory of materials is stated at average cost, which approximates market. The costs of inventories are recorded as expenses when consumed rather than when purchased.

##### **5. *Restricted Assets and Related Liabilities***

Assets, whose use is restricted to specific purposes and which include water deposits, customer project deposits, and other purposes, along with related liabilities are segregated on the Statement of Net Position.

## 6. *Clearing Accounts and Other Work in Progress*

These charges consist of preliminary costs for projects that may be capitalized in the future but are not yet capitalized. If the project is abandoned these costs will be expensed. Also included are costs for customer-funded projects.

## 7. *Utility Plant in Service*

All purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

Expenditures or major additions, improvements, and replacements are capitalized for amounts in excess of \$500 with an initial useful life of more than one reporting period. The costs of normal maintenance and repairs incurred that do not add to the value of the asset or materially extend asset lives are charged to operations and not capitalized. Major outlays for capital assets and improvements are capitalized as projects are incurred. Capital assets are depreciated using the straight-line method over their estimated useful lives.

Depreciation is computed using the straight-line method over the estimated useful lives of the various assets as follows:

Buildings	5 to 50 years
Land improvements	10 to 100 years
Furniture and fixtures	3 to 15 years
Machinery and equipment	3 to 15 years
Vehicles	6 to 20 years
Water utility system	10 to 75 years

## 8. *Compensated Absences*

Each regular employee is entitled to accumulate an unlimited amount of sick leave. Upon retirement from Water Board employment, as defined by the Water Board Retirement Program, the employee shall be paid for thirty percent (30%) of his/her accumulated sick leave at their regular rate if they have between 0 to 399 accumulated hours of sick leave, fifty percent (50%) for 400 to 799 accumulated hours of sick leave, and seventy percent (70%) for 800 to 1,200 accumulated hours of sick leave. For purposes of payment upon retirement, accumulated sick leave will be capped at 1,200 hours.

No amount has been determined or accrued for the potential liability of the Water Board pertaining to the payment of accumulated sick leave, as it is paid only to those employees who actually retire from Water Board service and is not considered a liability until that event occurs. However, \$70,061 of accumulated sick leave was estimated as of June 30, 2013, for employees 55 or over.

Currently employees earn vacation on a sliding scale based on continuous full-time years of service up to 180 hours per year, with the ability to carryover forty hours per employee to the next year. Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees.

## 9. *Long-term Obligations*

Since the Coos Bay-North Bend Water Board is a governmental entity that uses proprietary fund accounting, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position.

#### 10. Capital Contributions

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

#### 11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenses as of and for the year ended June 30, 2013. Accordingly, actual results may differ from such estimates.

#### 12. Proprietary Fund Net Position

For the year ended June 30, 2013, the Coos Bay-North Bend Water Board implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in accordance with Concepts Statement No. 4, Elements of Financial Statements.

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the Water Board's financial statements. Net investment in capital assets consists of the historical cost of capital assets, net of accumulated depreciation, reduced by any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets. Debt related to unspent proceeds or other restricted cash and investments are excluded from the determination.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally this occurs when there are limitations imposed on their use either through enabling legislation adopted by the Water Board or through external restrictions by creditors, grantors, or law or regulations of other governments. There was no restricted net position at June 30, 2013.

Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

	<u>2013</u>
Net Investment in capital assets:	
Net capital assets	\$ 61,990,928
Less:	
Revenue secured loans	(10,194,765)
Revenue bonds	(8,510,000)
Unamortized debt reoffering premium	<u>196,452</u>
	<u><u>\$ 43,482,615</u></u>

During the year ended June 30, 2013, the Water Board also implemented GASB Statement No. 65 Items Previously Reported as Assets and Liabilities (GASB 65). GASB 65 amends or supercedes the accounting and financial reporting guidance for certain items previously required to be reported as assets and liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The implementation of GASB 65 required the Water Board to recognize a prior period adjustment of \$110,974 to expense the remaining balance of bond issuance costs related to the 2006 Advance Refunding. The unamortized bond discount of \$196,452 continues to be amortized over the remaining life of the bonds.

## II. OTHER INFORMATION

### A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Under the provision of ORS 294.316 (7), the Water Board is exempt from Local Budget Law. However, the Water Board does follow many of the practices of entities that are subject to Local Budget Law, such as a budget committee, public hearing, media advertisements, and resolution adopting the budget by functional category.

## III. DETAILED NOTES

### A. Deposits and Investments

**Deposits.** The Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, requires governmental agencies to disclose an indication of the level of risk assumed by the entity at year-end. If bank deposits at year-end are not entirely insured or collateralized with securities held by the Water Board or by its agent in the Water Board's name, the Water Board must disclose the custodial credit risk that exists. Deposits with financial institutions are comprised of bank demand deposits. For deposits in excess of federal depository insurance, Oregon Revised Statutes now require that the financial institution participate in the Public Funds Collateralization Program. The Public Funds Collateralization Program is a multiple financial institution collateral pool administered by the Oregon State Treasurer's office.

For the fiscal year ended June 30, 2013, the carrying amounts of the Water Board's deposits in various financial institutions were \$1,521,350 and the bank balances were \$1,521,392. All deposits are held in the name of the Water Board in accounts that include demand deposit and money market accounts. Of the bank balances, \$500,000 was covered by federal depository insurance. The remaining \$1,021,392 was covered by the Public Funds Collateralization Program.

*Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Water Board does not have a formal deposit policy for custodial credit risk.

Effective July 1, 2008, the Oregon State Treasurer became responsible for monitoring public funds held by bank depositories in excess of FDIC insured amounts, and for assuring that public funds on deposit are collateralized to the extent required by Oregon Revised Statutes (ORS) 295. ORS Chapter 295 requires depository banks to place and maintain on deposit with a third party custodian bank securities having a value of 10%, 25% or 110% of public funds on deposit depending primarily on the capitalization level of the depository bank. Deposits in the Public Funds Collateralization Pool are not 100% guaranteed.

**Investments.** State statutes authorize the Water Board to invest primarily in general obligations of the U. S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial papers and the State Treasurer's Investment Pool, among others.

At June 30, 2013, the Water Board had invested \$4,146,010 with the Oregon Short-Term Fund (OSTF), which is a cash and investment pool available for use by all state funds and local governments and is maintained by the State Treasurer. The Local Government Investment Pool (LGIP) is an unrated, open-ended, no-load diversified portfolio offered to eligible participants, including any municipality, political subdivision, or public corporation of the state. Currently, there are more than 1,500 participants in the Pool. Local government pooled assets are reported as an Investment Trust Fund in Oregon's Comprehensive Annual Financial Report. The Oregon Short-Term Fund Board, established by the Oregon Legislature, advises the Oregon Investment Council and the Oregon State Treasury in the management and investments of the LGIP.

*Credit Risk* – Credit risk for investments is the risk that, in the event of the failure of the counterparty, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State of Oregon LGIP is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the Pool's investment policies. The State Treasurer is the investment officer of the Pool and it is responsible for all funds in the Pool. These funds must be invested and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the fund are further governed by portfolio guidelines issued by the Oregon Short-Term Funds Board, which establish diversification percentages and specify the types and maturities of investments. The Water Board has no formal investment policy that further restricts its investment choices.

*Concentration of Credit Risks* - The Water Board is required to provide information about the concentration of credit risk associated with its investments in one issuer that represent 5 percent or more of the total investments, excluding investments in external investment pools or those issued and explicitly guaranteed by the U.S. Government. The Water Board has no such investments.

*Interest Rate Risk* - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Oregon Short-Term Fund Board manages this risk by limiting the maturity of the investments held by the fund. The Water Board's investment policy includes only those investments authorized by statute, but places no limits on the amount of each type in the investment portfolio. The Water Board does not have a formal investment policy that explicitly limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

Investments in the State Treasurer's investment pool are stated at fair value, which is essentially equal to cost at June 30, 2013. The fair value of investments is determined annually, and is based on current market prices. Investments with remaining maturities of up to ninety days are carried at amortized cost, which approximates fair value.

At fiscal year end, the carrying amounts of the Water Board's investments were as follows:

	<u>June 30, 2013</u>
Oregon State Treasury	
Local Government Investment Pool (LGIP)	<u>\$ 4,146,010</u>

Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* established accounting and financial reporting standards for investments held by governmental external investment pools, and established fair value standards for other governmental entities. GASB Statement No. 31 requires that governmental entities, including those such as the Water Board, report certain investments at fair value in the balance sheets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. This is reported under Non-operating Revenues (Expenses) on the Statement of Revenues, Expenses, and Changes in Net Position. The net increase (decrease) in the fair value of investments the year ended June 30, 2013 was zero. The amount takes into account all changes in fair value during the year.

In addition, the LGIP distributes investment income on an amortized cost basis and participants' equity in the pool is determined by the amount of participant deposit, adjusted for withdrawals and distributed income. Accordingly, the above adjustments to fair value do not represent an expendable decrease or increase in the Water Board's cash position.

Investments in Oregon State Treasury Local Government Investment Pool are made under the provisions of ORS 294.810. These funds are held in the Water Board's name and are not subject to the collateralization requirements of ORS 295.015.

A reconciliation of cash and cash equivalents as shown on the Statement of Net Position follows:

	<u>2013</u>
Petty cash	\$ 820
Carrying amount of deposits	1,521,350
Carrying amount of investments	<u>4,146,010</u>
Total cash and cash equivalents	<u>\$ 5,668,180</u>
Cash and cash equivalents:	
In unrestricted accounts	\$ 5,636,996
In restricted accounts (Note III C)	<u>31,184</u>
Total	<u>\$ 5,668,180</u>

## **B. Related Party Transactions**

All sewer service charges are billed by the Water Board as an accommodation for the Cities of Coos Bay and North Bend, and collections thereon are remitted to the cities, less a handling fee, for providing these services. The Water Board received \$65,525 from Coos Bay and \$51,193 from North Bend for these sewer billing services for the year ending June 30, 2013. The North Bend monies included handling fees for storm sewer payments. Sewer fees collected by the Water Board and remitted to the City of Coos Bay, along with charges for sludge disposal and office use, were \$4,748,847, and to North Bend for sewer fees and storm sewer were \$1,821,399, totaling \$6,570,246 for the fiscal year ended June 30, 2013. The uncollected sewer service charges are offset by a like amount under current liabilities. The current liabilities also include the sewer charges collected but not yet remitted to the cities.

## **C. Restricted Assets**

Restricted assets (and similar liabilities) pertain to customer water deposits on hand of \$30,544 at June 30, 2013, to eventually be refunded or applied to water sales.

The remaining restricted item as of June 30, 2013 pertains to \$640, of monies being received from customers for project deposits.

## E. Utility Plant

The utility plant in service is summarized by major categories as follows:

	Balance July 1, 2012	Additions	Disposals	Balance June 30, 2013
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 11,230,718	\$ 106,874	\$ (11,108,734)	\$ 228,858
<i>Capital assets being depreciated:</i>				
Intangible plant, franchises and consents	33,699	-	-	33,699
Source of supply plant	24,140,181	66,976	-	24,207,157
Power and pumping plant	2,729,614	24,379	-	2,753,993
Purification plant	9,409,230	13,509,171	(1,425,971)	21,492,430
Transmission plant	2,497,249	2,935	-	2,500,184
Distribution storage plant	2,955,329	1,003	-	2,956,332
Distribution plant	22,923,967	1,108,636	(14,706)	24,017,897
General plant	5,686,962	412,973	(76,802)	6,023,133
 Total capital assets being depreciated	 70,376,231	 15,126,073	 (1,517,479)	 83,984,825
 Accumulated depreciation:				
Intangible plant	(1,064)	(152)	-	(1,216)
Source of supply plant	(2,996,199)	(238,801)	-	(3,235,000)
Power and pumping plant	(1,245,428)	(82,897)	-	(1,328,325)
Purification plant	(4,387,384)	(227,187)	854,493	(3,760,078)
Transmission plant	(1,067,151)	(33,270)	-	(1,100,421)
Distribution storage plant	(1,424,300)	(40,533)	-	(1,464,833)
Distribution plant	(8,902,923)	(398,731)	14,704	(9,286,950)
General plant	(3,435,030)	(214,947)	79,075	(3,570,902)
Unallocated reserve	935,026	-	589,944	1,524,970
 Total accumulated depreciation	 (22,524,453)	 (1,236,518)	 1,538,216	 (22,222,755)
 Total capital assets being depreciated (net)	 47,851,778	 13,889,555	 20,737	 61,762,070
 Total utility plant	 \$ 59,082,496	 \$ 13,996,429	 \$ (11,087,997)	 \$ 61,990,928

## F. Construction in Progress

The Water Board has embarked upon a project to increase the capacity of its water treatment plant located at Pony Creek from 8 million gallons per day (MGD) to 12 MGD. Engineering began in fiscal year 2009-10. Construction began in fiscal year 2010-11 and was completed in fiscal year 2012-13. Total cost of the project was around \$12.3 million dollars. The cities of Coos Bay and North Bend have each borrowed approximately \$5 million dollars on the Water Board's behalf. The monies are federal stimulus monies.

## G. Non-current Liabilities

### 1. Bonds and Loans Payable

The Water Board, by resolution, is pledged to establish, maintain, and collect rates and charges for water service that will produce sufficient revenue, after deducting the expenses for operation and maintenance, to meet principal and interest payments when due. The Water Board makes payments on these obligations to the individual cities and the cities make the debt payments to the financing institutions.

As discussed in the previous section the cities of Coos Bay and North Bend each borrowed approximately \$5 million dollars on the Water Board's behalf to finance the Pony Creek water treatment plant. The Water Board will pledge its revenue stream to the two cities for repayment of the debt once the loan has closed. Debt repayment will begin on December 1st of the year after the project is completed, which will be December 1, 2013. The amount of the loan drawn at June 30, 2013 was \$5,000,000 from each city. A payment schedule is not yet available, however based upon the contract terms, including interest at 3.4%, the bonds outstanding and estimated payments due are as follows:

Fiscal Year	Issue of 2010		
	Total	Principal	Interest
2013-2014	\$ 689,802	\$ 355,304	\$ 334,498
2014-2015	689,802	367,574	322,228
2015-2016	689,802	380,269	309,533
2016-2017	689,802	393,401	296,401
2017-2018	689,802	406,987	282,815
2019-2023	3,449,010	2,255,727	1,193,283
2024-2029	3,449,010	2,673,082	775,928
2030-2033	3,449,010	3,167,656	281,354
Total	<u>\$ 13,796,040</u>	<u>\$ 10,000,000</u>	<u>\$ 3,796,040</u>

**Advance refundings** – In 2006 the Cities of Coos Bay and North Bend, on behalf of the Water Board, issued \$11,290,000 of limited tax full faith and credit refunding obligation bonds, \$5,645,000 each city, to provide resources that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments on Revenue Bonds issued in 2000. This refunding reduced the total debt service payments over the years by \$866,502. This resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$749,048.

The Water Board implemented GASB 65 for the year ending June 30, 2013. That resulted in a prior period adjustment of \$110,974 to expense the remaining balance of bond issuance costs that had been carried on the books as an asset. The reacquisition price of the new debt exceeded the net carrying amount of the refunded debt by \$298,658. This amount is reported as an offset against the new debt and is amortized over the life of the refunded debt, which is the same as the debt issued. At June 30, 2013 there was \$196,452 remaining to be amortized.

The bonds outstanding as of June 30, 2013 for each individual city are as follows:

Fiscal Year	Issue of April 26, 2006		
	Total	Principal	Interest
2013-2014	\$ 456,967	\$ 275,000	\$ 181,967
2014-2015	452,968	285,000	167,968
2015-2016	453,343	300,000	153,343
2016-2017	452,967	315,000	137,967
2017-2018	453,080	330,000	123,080
2019-2023	2,268,075	1,880,000	388,075
2024-2025	907,294	870,000	37,294
Total	<u>\$ 5,444,694</u>	<u>\$ 4,255,000</u>	<u>\$ 1,189,694</u>

Interest rates: Vary between 4.15% and 5.00%

**Revenue loans** – On June 13, 2005, the Water Board secured revenue loans with the State of Oregon, Business Development Department, in the amount of \$250,000, \$125,000 each City, for its portion of the Bay Crossing Project water line construction. This is a primary obligation of the Cities of Coos Bay and North Bend over 25 years at 4.97% annual interest.

The future requirements for amortization of this revenue secured debt, for each individual City, are as follows:

Fiscal Year	Issue of June 13, 2005		
	Total	Principal	Interest
2013-2014	\$ 8,620	\$ 3,780	\$ 4,840
2014-2015	8,620	3,968	4,652
2015-2016	8,620	4,165	4,455
2016-2017	8,620	4,372	4,248
2017-2018	8,620	4,590	4,030
2018-2019	8,620	4,818	3,802
2019-2020	8,620	5,057	3,563
2020-2025	43,100	29,314	13,786
2025-2030	43,058	37,318	5,740
Total	<u>\$ 146,498</u>	<u>\$ 97,382</u>	<u>\$ 49,116</u>

## 2. *Changes in long-term liabilities.*

During the fiscal year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amount due within one year
<u>City of Coos Bay</u>					
Issue 6/14/05	\$ 100,983	\$ -	\$ (3,601)	\$ 97,382	\$ 3,780
Issue 4/26/06 (refunding)	4,510,000	-	(255,000)	4,255,000	275,000
Issue 2010	3,561,006	1,438,994	-	5,000,000	177,652
<u>City of North Bend</u>					
Issue 6/14/05	100,983	-	(3,601)	97,382	3,780
Issue 4/26/06 (refunding)	4,510,000	-	(255,000)	4,255,000	275,000
Issue 2010	3,561,006	1,438,994	-	5,000,000	177,652
Total	16,343,978	2,877,988	(517,202)	18,704,764	912,864
Less unamortized discount	(213,540)	-	17,089	(196,451)	(17,089)
Total	<u>\$ 16,130,438</u>	<u>\$ 2,877,988</u>	<u>\$ (500,113)</u>	<u>\$ 18,508,313</u>	<u>\$ 895,775</u>

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amount due within one year
Accrued vacation	<u>\$ 138,002</u>	<u>\$ 122,064</u>	<u>\$ (119,496)</u>	<u>\$ 140,570</u>	<u>\$ 140,570</u>

## H. Operating Leases

The Water Board leased land to three companies under operating leases for communication sites with future minimum rent payment obligations. Lessees are also obligated to pay real property taxes assessed on the respective sites.

### 1. *High Level Reservoir Site A - Pacificorp*

The original date of this lease was December 18, 2001, and has since been renewed with the same terms. The current lease is for five years ending December 20, 2016 and requires an annual lease payment of \$3,775 and \$3,850 for fiscal years ending 6/30/2013 and 6/30/2014 respectively. It is adjusted annually for consumer price index variations. The lessee is also obligated to pay half of the real property taxes assessed (sharing costs with High Level Reservoir Site B, below). Annual payments on this lease are payable to the Water Board on December 21st.

### 2. *High Level Reservoir Site B – Charter Communications*

The original date of this lease was May 25, 2001, and has since been renewed with the same terms. This lease is for five years ending February 28, 2017 and requires an annual lease payment of \$10,205 and \$10,409 for fiscal years ending 6/30/2013 and 6/30/2014 respectively. Annual lease payments are adjusted annually for consumer price index variations. The lessee is also obligated to pay half of the real property taxes assessed (sharing costs with High Level Reservoir Site A, above). Annual payments on this lease are payable to the Water Board on March 1st.

### 3. *Charleston Site – Edge Wireless, LLC/AT&T*

The original date of this lease was September 1, 2002 and was last renewed August 23, 2007. This lease is for five years ending August 31, 2012, requires an annual lease payment of \$9,765 and \$10,068 for fiscal years ending 6/30/12 and 6/30/13 respectively. The lease is being renegotiated, but the terms are expected to continue to require an annual lease payment adjusted annually for consumer price index variations. The lessee is also obligated to pay the real property taxes assessed. Annual payments on this lease are payable to the Water Board on September 1st.

The following is a schedule as of June 30, 2013, of projected future rentals (based on a 2% Consumer Price Index increase) on non-cancelable operating leases, with remaining terms in excess of one year, by fiscal year.

<u>June 30th</u>	
2014	\$ 24,528
2015	25,019
2016	25,519
2017	26,030
2018	26,550
	<u>\$ 127,646</u>

#### **I. Timber Management Plan**

The Pony Creek watershed, consisting of about 2,855 land and reservoir acres, is divided between the City of Coos Bay, which individually controls approximately 37% of the area, and the Water Board, which manages the remaining 63%. By agreement between the City and the Water Board, the general management of the entire area is assigned to the Water Board.

The logging, clearing, and planting of the area is to be accomplished over a period of years by management units. Net revenues from log sales from certain management units are divided between the City of Coos Bay and the Water Board, based on a percentage of controlled land by each agency within the logged units. The Water Board's share of the net gain or loss is determined and reported on an annual basis.

#### **J. Pension – Defined Benefit Plan**

##### *1. Plan Description*

The Water Board manages a retirement income plan for its employees. The Plan's funds are held by Alliance Capital and AXA Equitable. This plan is a single employer retirement income defined benefit plan, covers all eligible employees and does not issue a stand-alone financial report. The Water Board determines which benefit provisions are established and may be amended. The covered payroll for employees in the plan for the years ended June 30, 2013 was \$1,550,631; the Water Board's total payroll was \$1,802,081. Effective January 1, 2011 the plan was frozen to new entrants.

##### *2. Actuarial Procedures and Assumptions*

The Retirement Income Plan for employees of the Water Board's most recent Actuarial Valuation was prepared as of July 1, 2013 by Milliman USA, and the report may be obtained by contacting the Water Board. The plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The valuation method used for the Water Board's plan is the Entry Age Normal Actuarial Cost Method. At the July 1, 2013 valuation date there were 30 plan members.

## Actuarial Cost Method

### *Entry Age Normal Actuarial Cost Method*

A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The portion of the Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

Under this method the excess (deficit) of the Actuarial Accrued Liability over (under) the Actuarial Value of Assets is the Unfunded Actuarial Accrued Liability (Surplus). Also under this method the Actuarial Gains (Losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

This method produces a recommended contribution equal to the Normal Cost plus an amortization of the Unfunded Actuarial Accrued Liability expressed as a level dollar amount.

### Valuation of Assets

For this valuation, assets were based on the market value of associated investment accounts with Alliance Capital and AXA Equitable.

### Actuarial Assumptions

Investment Earnings:	7% (net of expenses)	
Salary Increases:	4.0%	
Post-retirement Cost-of-Living Increases:	2.0%	
Termination from Employment:	<u>Years of Service</u>	<u>Rate of Termination</u>
	Less than 5	4.5%
	5 - 9	3.0%
	10 - 14	1.5%
	More than 15	0.0%
Retirement	65% at Normal Retirement Age, and 35% at First age at which the Rule of 85 applies	
Unused Vacation Pay:	Each member was assumed to accrue unused vacation pay of 220 hours at retirement.	
Target Amortization Period:	15 years	closed

The significant above actuarial assumptions used to compute the actuarially determined annual contribution requirement are the same as those used to compute the pension benefit obligation.

The following schedule of funding progress presents multi year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Payroll (c)	Percentage of Covered Payroll [(b)-(a)]/(c)
7/1/2007	3,902,800	(4,618,300)	(715,500)	84.5%	1,392,500	51.4%
7/1/2009	3,290,800	(5,184,700)	(1,893,900)	63.5%	1,412,800	134.1%
7/1/2011	4,687,400	(6,314,400)	(1,627,000)	74.2%	1,709,000	95.2%
7/1/2013	5,698,200	(6,929,100)	(1,230,900)	82.2%	1,583,200	77.7%

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ending	Covered Payroll	Employer Contributions	Employer Contributions	Contribution (ARC) %	Cost (APC)	of ARC Contributed	Pension Obligation
6/30/2008	\$ 1,426,200	\$ 220,491	15.5%	15.5%	15.6%	100%	(111,200)
6/30/2009	\$ 1,540,000	\$ 237,875	15.4%	14.4%	14.5%	107%	(125,600)
6/30/2010	\$ 1,506,200	\$ 244,500	16.2%	14.4%	14.5%	113%	(151,300)
6/30/2011	\$ 1,632,819	\$ 370,383	22.7%	22.8%	22.9%	100%	(147,200)
6/30/2012	\$ 1,564,596	\$ 357,185	22.8%	22.8%	22.9%	100%	(144,800)
6/30/2013	\$ 1,550,631	\$ 352,412	22.6%	22.7%	23.0%	100%	(139,400)

The rate of employer contribution is based upon the actuarial valuations. The required employer contribution rate for 2012-13 was 22.6% of annual covered payroll. The actual employer contribution rate for 2012-13 averaged 22.6%. No employee contributions have been made since 1975. Total contributions were \$352,412 for 2012-13. Under the entry age normal actuarial cost method all annual required contributions represent annual pension costs.

The above pension liability (asset) net obligation was determined in accordance with Government Accounting Standards Board (GASB) Statement No. 27. Since all actuarially determined contributions have been paid, the pension liability (asset) at the date of transition was zero. GASB Statement No. 25 was followed in presenting the above funded status of the Water Board's Retirement Income Plan and in utilizing the Entry Age Normal Actuarial Cost Method to determine the Annual Required Contribution (ARC). GASB No. 50, which amends GASB No. 25 and No. 27, is effective for fiscal years beginning after June 15, 2007. The disclosures required under GASB No. 25 and No. 27 continue to be sufficient under GASB No. 50.

### K. Pension – Defined Contribution Plan

For employees hired or rehired on or after January 2011, the Water Board has established a voluntary 401(a) defined contribution retirement plan in lieu of the existing retirement plan described above. The plan is administered by Nationwide Insurance Company. The Water Board has the authority to amend the plan and has negotiated the current contribution rate with the employee union. The current contract requires the Water Board to contribute at the same rate per annum as the employee contributes to the 457(b) plan for that year, but no less than 9% and no more than 13% of the employee's annual regular salary for payroll periods ending in that year. For this purpose, annual regular salary does not include lump sum payments for unused leave. Employees become eligible under this plan on or after the employee's seventh month of employment with the Water Board. Employees are required to be employed for 48 continuous months after the date of the employee's hire or rehire before the employee is fully vested in the plan. For the fiscal year ended June 30, 2013, the Water Board contributed \$13,213 to the plan and employees contributed \$12,236.

In conjunction with the 401(a) plan, the Water Board has established a 457(b) retirement plan. Employees may contribute any amount they choose to this plan, not to exceed the annual limit under the Federal Law.

#### **L. Risk Management**

The Water Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Water Board purchases and carries commercial insurance subject to customary deductibles and total coverage limits recommended by the Water Board's insurance agent of record. Workers compensation insurance is purchased from a commercial carrier. Premiums are determined based on payroll paid at various employment classification rates. Loss prevention services are available from the carrier and the Water Board has no potential liability beyond the premiums paid.

Insurance coverage for the years ended June 30, 2013 was the same or greater than in prior years. No losses were incurred during the past three years which were greater than the Water Board's coverage.

#### **M. Other**

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* was effective for the Water Board in fiscal year 2009-10. Management has determined that the Water Board has no liability under GASB 45.

## **SUPPLEMENTARY INFORMATION**

**COOS BAY-NORTH BEND WATER BOARD**  
**SCHEDULE OF OPERATING REVENUES - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Water sales:			
Residential	\$ 3,788,400	\$ 3,715,007	\$ (73,393)
Commercial	1,341,000	1,346,033	5,033
Industrial	675,300	669,645	(5,655)
Private fire protection - commercial	28,400	30,299	1,899
Public authorities - metered	389,200	409,003	19,803
Public authorities - hydrants	26,400	26,400	-
Other water sales	17,300	14,535	(2,765)
	<u>6,266,000</u>	<u>6,210,922</u>	<u>(55,078)</u>
Total water sales			
Other operating revenues:			
Rent from water property	24,000	15,821	(8,179)
Servicing customer's installations	5,300	5,946	646
Miscellaneous water revenue	117,900	117,986	86
	<u>147,200</u>	<u>139,753</u>	<u>(7,447)</u>
Total other operating revenue			
Total operating revenues	<u>\$ 6,413,200</u>	<u>\$ 6,350,675</u>	<u>\$ (62,525)</u>

See auditor's report.

**COOS BAY-NORTH BEND WATER BOARD**  
**SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Expenses:			
Source of supply:			
Operating:			
Labor	\$ 44,700	\$ 35,794	\$ 8,906
Supplies and expenses	146,300	149,306	(3,006)
Maintenance:			
Labor	39,600	40,215	(615)
Supplies and expenses	37,200	41,440	(4,240)
Total source of supply	<u>267,800</u>	<u>266,755</u>	<u>1,045</u>
Power and pumping:			
Operating:			
Labor	43,000	26,674	16,326
Supplies and expenses	15,200	14,749	451
Power purchase	308,100	272,212	35,888
Maintenance:			
Labor	31,500	17,699	13,801
Supplies and expenses	13,100	12,305	795
Total power and pumping	<u>410,900</u>	<u>343,639</u>	<u>67,261</u>
Purification:			
Operating:			
Labor	500,500	523,015	(22,515)
Supplies and expenses	355,700	291,500	64,200
Maintenance:			
Labor	27,100	2,665	24,435
Supplies and expenses	30,400	16,466	13,934
Total purification	<u>913,700</u>	<u>833,646</u>	<u>80,054</u>
Transmission:			
Operating:			
Labor	700	76	624
Supplies and expenses	200	2	198
Maintenance:			
Labor	700	4,300	(3,600)
Supplies and expenses	800	4,402	(3,602)
Total transmission	<u>\$ 2,400</u>	<u>\$ 8,780</u>	<u>\$ (6,380)</u>

See auditor's report.

**COOS BAY-NORTH BEND WATER BOARD**  
**SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL (continued)**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Distribution:			
Operating:			
Storage:			
Labor	\$ 40,100	\$ 23,407	\$ 16,693
Supplies and expenses	10,300	7,912	2,388
Mains:			
Labor	160,200	173,429	(13,229)
Supplies and expenses	25,100	33,908	(8,808)
Meters:			
Labor	72,800	52,643	20,157
Supplies and expenses	15,300	14,576	724
Services:			
Labor	82,500	63,647	18,853
Supplies and expenses	13,700	11,974	1,726
Maintenance:			
Storage:			
Labor	45,300	31,984	13,316
Supplies and expenses	16,900	24,931	(8,031)
Mains:			
Labor	98,900	54,909	43,991
Supplies and expenses	72,000	53,808	18,192
Meters:			
Labor	38,900	24,803	14,097
Supplies and expenses	15,200	12,853	2,347
Services:			
Labor	36,500	43,118	(6,618)
Supplies and expenses	37,300	43,155	(5,855)
Total distribution	<u>\$ 781,000</u>	<u>\$ 671,057</u>	<u>\$ 109,943</u>

See auditor's report.

**COOS BAY-NORTH BEND WATER BOARD**  
**SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL (continued)**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Customers' accounting and collecting:			
Operating:			
Meter reading:			
Labor	\$ 228,800	\$ 211,428	\$ 17,372
Supplies and expenses	18,100	24,115	(6,015)
Collecting:			
Labor	349,400	339,449	9,951
Supplies and expenses	26,500	26,530	(30)
Billing:			
Labor	81,300	57,814	23,486
Supplies and expenses	52,100	53,694	(1,594)
Uncollectible accounts	30,000	72,714	(42,714)
	<u>786,200</u>	<u>785,744</u>	<u>456</u>
Total customers' accounting and collecting			
Administrative and general:			
Operating:			
Salaries of administrative officers	148,900	151,137	(2,237)
Other general office salaries	338,900	361,166	(22,266)
General office supply and expense	91,900	98,328	(6,428)
Special services-audit	23,500	19,950	3,550
Legal services	30,000	38,554	(8,554)
Insurance - liability and property	23,200	20,604	2,596
Miscellaneous general expense	11,800	7,680	4,120
General property tax	-	626	(626)
Maintenance:			
Labor	28,600	31,431	(2,831)
Supplies and expenses	45,600	34,703	10,897
	<u>742,400</u>	<u>764,179</u>	<u>(21,779)</u>
Total administrative and general			
Depreciation	<u>1,253,800</u>	<u>1,170,698</u>	<u>83,102</u>
Total operating expenses	<u>\$ 5,158,200</u>	<u>\$ 4,844,498</u>	<u>\$ 313,702</u>

See auditor's report.

**COOS BAY-NORTH BEND WATER BOARD**  
**SCHEDULE OF NON-OPERATING REVENUES (EXPENSES) - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Non-operating revenues (expenses):			
Interest income	\$ 30,000	\$ 18,212	\$ (11,788)
Miscellaneous income	518,500	92,340	(426,160)
Sewer service billing income	116,700	116,718	18
Interest expense	(740,500)	(719,217)	21,283
Amortization of debt refunding deferral	<u>(26,000)</u>	<u>(17,087)</u>	<u>8,913</u>
Total non-operating revenues (expenses)	<u>(101,300)</u>	<u>(509,034)</u>	<u>(407,734)</u>
Net Income	<u>\$ 1,153,700</u>	997,143	<u>\$ (156,557)</u>
 <b>Adjustments to excess of revenues over expenses</b> <b>to reconcile to changes in Net Position on a GAAP basis:</b>			
Capital contributions received:			
Tap charges		34,804	
System development charges		13,755	
Contributions in aid of construction		<u>76,665</u>	
 <b>Change in Net Position</b>		 <u><u>\$ 1,122,367</u></u>	

See auditor's report.

## **ACCOMPANYING INFORMATION**



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

November 13, 2013

To the Board of Directors of Coos Bay-North Bend Water Board:

We have audited the basic financial statements of the Coos Bay-North Bend Water Board as of and for the year ended June 30, 2013 and have issued our report thereon dated November 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Oregon Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

**Compliance**

As part of obtaining reasonable assurance about whether the Coos Bay-North Bend Water Board's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 to 162-10-320, as set forth below, 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 procedures to the extent we considered necessary to address the required comments and disclosures, which included, but were not limited to the following:

The use of approved depositories to secure the deposit of public funds (ORS Chapter 295).

The requirements relating to debt.

The requirements relating to the preparation, adoption and execution of annual budgets (ORS Chapter 294). However, the Water Board is exempt from Oregon Budget Law under ORS 294.316.

The requirements relating to insurance and fidelity bond coverage.

The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.

The statutory requirements pertaining to the investment of public funds (ORS Chapter 294).

The requirements pertaining to the awarding of public contracts and the construction of public improvements (ORS Chapters 279A, 279B, 279C).

The results of our tests disclosed no instances of noncompliance that are required to be reported under the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Oregon Secretary of State.

## Internal Control Over Financial Reporting

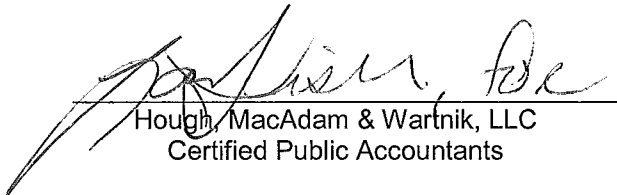
In planning and performing our audit, we considered the Coos Bay-North Bend Water Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion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

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

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

## Purpose of this Report

This report is intended solely for the information and use of the Board of Directors and management of the Coos Bay-North Bend Water Board and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



Hough, MacAdam & Wartnik, LLC  
Certified Public Accountants



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 13, 2013

To the Board of Directors of Coos Bay-North Bend Water Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Coos Bay-North Bend Water Board as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively the Water Board's basic financial statements and have issued our report thereon dated November 13, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Coos Bay-North Bend Water Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Coos Bay-North Bend Water Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Board's internal control.

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

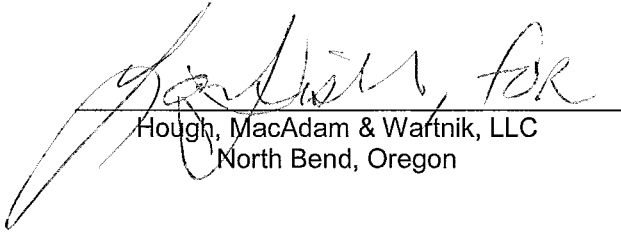
Our consideration of internal control was for the limited purpose described in the first paragraph of this section, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Coos Bay-North Bend Water Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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



Hough, MacAdam & Wartnik, LLC  
North Bend, Oregon