

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

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2017

COOS BAY-NORTH BEND WATER BOARD
Coos County, Oregon

ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2017

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BOARD OFFICIALS

COOS BAY-NORTH BEND WATER BOARD

BOARD OFFICIALS

June 30, 2017

BOARD OF DIRECTORS:

Melissa Cribbins, Vice-Chair
410 Date Street
Coos Bay, Oregon 97420

Bob Dillard, Secretary
2470 Ash Street
North Bend, Oregon 97459

J. Gregory Solarz, Member
2656 Stanton Street
North Bend, Oregon 97459

Charles J. Sharps, Ph.D., Chair
2285 N. 14th Street
Coos Bay, Oregon 97420

ADMINISTRATIVE STAFF

Ivan Thomas, 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 3, 2017

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, 2017, 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 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 opinion.

Opinion

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, 2017, 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 and required supplementary information 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 management's discussion and analysis, and the required supplemental 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 this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

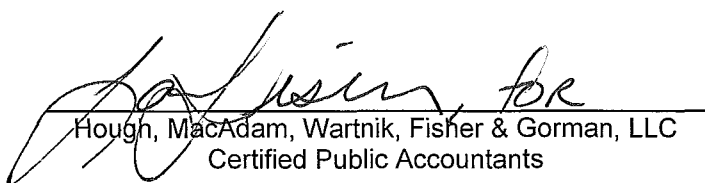
Our audit was conducted for the purpose of forming an opinion on the financial statements of the Coos Bay-North Bend Water Board. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2017, 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, contract and grant agreements, 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 2, 2017, 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.



Hough, MacAdam, Wartnik, Fisher & Gorman, LLC
Certified Public Accountants



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P.O. Box 539, Coos Bay, Oregon 97420-0108
Telephone: (541) 267-3128 Fax: (541) 269-5370

Ivan D. Thomas, 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, 2017. 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 \$70,925,124 and \$70,751,385 as of June 30, 2017 and 2016, respectively, with the utility plant values at \$64,410,544 and \$65,160,077 net of accumulated depreciation. Current assets are \$6,432,943 and \$5,532,690 as of June 30, 2017 and 2016; restricted assets are \$81,637 and \$58,591.
- Deferred Gain on Refunding Debt, GASB disclosure, is new this year because of the refinancing of 2006 bonds for the water supply expansion project.
- Deferred Outflows of Resources, a new GASB disclosure, is \$358,864 and \$668,206 as of June 30, 2017 and 2016. Please see note disclosure, Deferred Outflows/Inflows of Resources, page 16.
- The assets of the Water Board exceeded its liabilities at the close of the 2017 and 2016 fiscal years by \$52,786,624 and \$51,739,651, respectively. Of these amounts, \$3,701,706 and \$2,886,439 may be used to meet the Water Board's ongoing obligations.
- Capital assets less related debt are \$49,084,918 for fiscal year 2017. Revenue secured loans total \$9,175,622 and general obligation bonds total \$6,791,400 as of June 30, 2017.
- The Water Board's net position increased by \$1,046,972 from June 30, 2016 to June 30, 2017, and \$1,382,756 during the previous 2016 fiscal year.
- Total liabilities were \$18,600,880 and \$19,679,913 as of June 30, 2017 and 2016, respectively, with long-term liabilities of \$14,200,523 and \$15,207,321, and other liabilities (comprised of current liabilities and those payable from restricted assets) of \$ 2,899,243 and \$2,851,092 for fiscal 2017 and 2016, respectively. Net pension liability was \$1,501,114 and \$1,621,500 for for fiscal 2017 and 2016, respectively, see note disclosure Pension – Defined Benefit Plan, page 28.
- Total operating revenues for the fiscal year 2016-2017 were \$7,184,549, which is an increase of 1.3% over the prior year. The increase in revenues is the result of a rate adjustment targeted to generate a 3.5% increase in revenue in fiscal year 2016-2017.
- Total operating expenses for the fiscal year 2016-2017 and 2015-2016 were \$6,052,933 and \$6,037,909 respectively. This is an decrease of 0.2% over the prior year, see more detail on page 7.

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 10) 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 11) 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 12) 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 \$52.8 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 (93.0 %) reflects its investment in the utility plant (e.g., land, buildings, equipment, reservoirs and pipelines), less related debt. 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.

Net Position

	2017	2016	Difference	%
Current and other assets	\$ 6,514,580	\$ 5,591,281	\$ 923,299	16.5%
Utility Plant	64,410,544	65,160,077	(749,533)	-1.2%
Total assets	<u>70,925,124</u>	<u>70,751,358</u>	<u>173,766</u>	0.2%
Deferred Gain on Refunded Debt	103,516	-	103,516	100.0%
Deferred Outflows of Resources	358,864	668,206	(309,342)	-46.3%
Total Deferred Outflows	<u>462,380</u>	<u>668,206</u>	<u>(205,826)</u>	
Other liabilities	2,899,243	2,851,092	48,151	1.7%
Net Pension liability	1,501,114	1,621,500	(120,386)	-7.4%
Long-term liabilities	<u>14,200,523</u>	<u>15,207,321</u>	<u>(1,006,798)</u>	-6.6%
Total liabilities	<u>18,600,880</u>	<u>19,679,913</u>	<u>(1,079,033)</u>	-5.5%
Invested in capital assets, net of related debt	49,084,918	48,853,212	231,706	0.5%
Unrestricted	<u>3,701,706</u>	<u>2,886,439</u>	<u>815,267</u>	28.2%
Total net position	<u><u>\$ 52,786,624</u></u>	<u><u>\$ 51,739,651</u></u>	<u><u>\$ 1,046,973</u></u>	2.0%

At June 30, 2017, capital assets net of debt totaled \$49.0 million, the remaining \$3.7 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 \$1,046,972 an increase of 2.0%, inclusive of prior period adjustment.

Total operating revenues were up 1.3%. The increase is the result of rate adjustments targeted to generate a 3.5% increase in revenue in fiscal year 2016-2017.

Change in Net Position

	2017	2016	Difference	%
Water service	\$ 7,026,220	\$ 6,938,179	\$ 88,041	1.3%
Other	158,329	156,155	2,174	1.4%
Total operating revenue	7,184,549	7,094,334	90,215	1.3%
Source of supply	197,582	176,411	21,171	12.0%
Power and pumping	425,118	411,119	13,999	3.4%
Purification	919,979	882,840	37,139	4.2%
Transmission	2,891	6,911	(4,020)	-58.2%
Distribution	827,366	878,252	(50,886)	-5.8%
Customer's accounting and collection	850,035	857,019	(6,984)	-0.8%
Administrative and collection	1,116,625	1,196,672	(80,047)	-6.7%
Depreciation	1,713,337	1,628,685	84,652	5.2%
Total operating expenses	6,052,933	6,037,909	15,024	0.2%
Operating income	1,131,616	1,056,425	75,191	7.1%
Interest income	34,027	11,175	22,852	204.5%
Miscellaneous	17,007	586,408	(569,401)	-97.1%
Sewer service billing	122,385	122,385	-	0.0%
Interest expense	(409,213)	(614,276)	205,063	-33.4%
Amortization of debt discount and expense	(160,586)	(17,082)	(143,504)	840.1%
Total net non-operating (expenses)/revenue	(396,380)	88,610	(484,990)	-547.3%
Contributed capital	311,736	237,721	74,015	31.1%
Change in net position	1,046,972	1,382,756	(335,784)	-24.3%
Beginning net position	51,739,651	50,356,895	1,382,756	2.7%
Ending net position	\$ 52,786,623	\$ 51,739,651	\$ 1,046,972	2.0%

Operating expenses increased in total by .02% or \$15,024. Significant expense changes from 2016 to 2017 are as follows:

- Source of Supply expenses increased 12.0% or \$21,171 reflecting full staffing and contract work.
- Transmission expenses decreased 58.2% or \$4,020 reflecting bi-annual maintenance. The dunes transmission line is maintained bi-annually.
- Distribution expenses decreased 5.8% or \$50,886 reflecting the crew completing more capital projects and less operation and maintenance projects.

- Administration and General Expenses decreased 6.7% or \$80,047 reflecting the prior year's higher cost of hiring, legal and professional expenses, and GASB 68 recognition of pension expenses.
- Interest income increased 204.5% or \$22,852 reflecting the rise in interest rates and an increase in the balances of interest bearing accounts.
- Miscellaneous Income decreased by 97.1%, or \$569,401, reflecting no timber receipts. Harvesting of timber occurs every other year.
- Interest expense decreased by 33.4%, or \$205,063 reflecting the refinancing of the Water Supply Expansion Bonds.
- Amortization of debt discount and expenses increased by 840.1%, or \$143,504, reflecting the refinancing of the Water Supply Expansion bonds.

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

- New GASB 67 and 68, accounting for pensions and note disclosure, were implemented in 2015, please see the pension note for more information.

Capital Asset and Debt Administration

Capital Assets (Utility Plant in Service)

The Water Board's investment in capital assets as of June 30, 2017 amounts to \$64.4 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 decrease in the Water Board's investment in capital assets for the current fiscal year was \$0.7 million or 1.2% because a large project will be completed in 2018.

Long Term Debt

At the end of the 2017 fiscal year, the Water Board had total debt outstanding of \$15.9 million. All of the debt is held by the City of Coos Bay and the City of North Bend equally on behalf of the Water Board. The refunding obligation bonds of \$6.8 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 and as of June 30, 2017 the balance was \$8.3 million. The Water Board received an ODOT Reimbursement Loan for \$0.8 million for the South Empire Blvd. Project in 2016. The balance as of June 30, 2017 is \$0.7 million. On the Statement of Net Position, \$1.2 million is due within the next 2018 fiscal year and is reported under current liabilities, with the remaining \$15.3 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 2017 fiscal year the Water Board built in a 0.25% growth factor for the residential, multi-residential, and commercial customer classes. For the 2017 fiscal year, rates were increased by 3.5% to provide additional revenue to cover budgeted 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, 2017

ASSETS

	<u>2017</u>
Current assets:	
Cash and cash equivalents	\$ 4,700,504
Accounts receivable:	
Customer - net	346,689
Sewer service customers	320,487
Outside surcharges	47,864
Other	31,907
Prepaid expenses	143,100
Inventory	522,494
Clearing accounts	164,493
Other work in progress	<u>155,405</u>
Total current assets	<u>6,432,943</u>
Noncurrent assets:	
Restricted cash:	
Customer water deposits	50,014
Customer project deposits	<u>31,623</u>
Total restricted cash	<u>81,637</u>
Utility plant:	
Utility plant (net of accumulated depreciation)	63,747,581
Construction in progress	<u>662,963</u>
Total utility plant	<u>64,410,544</u>
Total assets	<u>70,925,124</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred gain on refunded debt	103,516
Deferred amounts related to pensions	<u>358,864</u>
	<u>462,380</u>

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

LIABILITIES AND NET POSITION

	<u>2017</u>
Current liabilities (payable from current assets):	
Accounts payable	\$ 228,648
Accrued salaries, payroll taxes and insurance	123,149
Accrued interest on long-term debt	179,529
Accrued vacation	105,248
Accrued other expenses	18,625
Current portion of long-term liabilities	1,228,619
Due to cities of Coos Bay and North Bend:	
Sewer service collections	613,301
Sewer service receivables	<u>320,487</u>
Total current liabilities	<u>2,817,606</u>
Noncurrent liabilities (payable from restricted assets):	
Customer water deposits	50,014
Customer project deposits	31,623
Net pension liability	1,501,114
Long-term liabilities:	
Bonds and loans payable (net)	<u>14,200,523</u>
Total noncurrent liabilities	<u>15,783,274</u>
Total liabilities	<u>18,600,880</u>
Net position:	
Net investment in capital assets	49,084,918
Unrestricted	<u>3,701,706</u>
Total net position	<u><u>\$ 52,786,624</u></u>

COOS BAY-NORTH BEND WATER BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2017

	<u>2017</u>
Operating revenues:	
Water sales	\$ 7,026,220
Other	<u>158,329</u>
Total operating revenues	<u>7,184,549</u>
Operating expenses:	
Source of supply	197,582
Power and pumping	425,118
Purification	919,979
Transmission	2,891
Distribution	827,366
Customers' accounting and collecting	850,035
Administrative and general	1,116,625
Depreciation	<u>1,713,337</u>
Total operating expenses	<u>6,052,933</u>
Operating income	<u>1,131,616</u>
Non-operating revenues (expenses):	
Interest income	34,027
Miscellaneous income	17,007
Sewer service billing income	122,385
Interest expense	(409,213)
Amortization of debt discount and expense	<u>(160,585)</u>
Total net non-operating revenues/(expenses)	<u>(396,379)</u>
Income before capital contributions	735,237
Capital contributions	<u>311,736</u>
Change in net position	1,046,973
Net position, beginning of the year	<u>51,739,651</u>
Net position, end of the year	<u><u>\$ 52,786,624</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, 2017

	<u>2017</u>
Cash flows from operating activities:	
Cash received from customers	\$ 7,154,977
Cash payments to employees	(2,775,052)
Cash payments to suppliers	(1,652,372)
Net cash provided by operating activities	<u>2,727,553</u>
Cash flows from noncapital financing activities:	
Misc income	17,007
Sewer service billing income	<u>122,385</u>
Net cash provided (used) by noncapital financing activities:	<u>139,392</u>
Cash flows from capital and related financing activities:	
Interest paid	(426,804)
Unamortized deferred gain on refunding debt	(111,657)
Project deposits	16,064
Additions to plant and equipment	(1,052,558)
Disposition of equipment	(6,962)
Capital contributions (from outside parties)	311,736
Issuance of debt	6,289,919
Principal payments on long-term debt	(7,320,087)
Net cash provided by (used for) capital and related financing activities	<u>(2,300,349)</u>
Cash flows from investing activities:	
Interest on investments	<u>34,027</u>
Net increase (decrease) in cash and cash equivalents	600,623
Cash and cash equivalents, beginning of year (including restricted cash of \$58,591)	<u>4,181,518</u>
Cash and cash equivalents, end of year (including restricted cash of \$81,637)	<u><u>\$ 4,782,141</u></u>
 Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 1,131,616
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,713,337
Depreciation allocated to materials and services	95,717
Pension expense related to GASB 68	188,956
Changes in assets and liabilities:	
Accounts receivable	(29,572)
Inventory	(75,706)
Prepaid expenses	(217,398)
Accounts payable	(28,905)
Accrued payroll and benefits	(34,566)
Compensated absences payable	(22,908)
Customer deposits	6,982
Net cash provided by operating activities	<u><u>\$ 2,727,553</u></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, 2017

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 one water treatment plant 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 \$37,536 at June 30, 2017. 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 \$5,000 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 completed. 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, \$44,020 of accumulated sick leave was estimated as of June 30, 2017, 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. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Statement of Net Position reports deferred outflows of resources for the net difference between projected and actual earnings on investments related to net pension liability.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Retirement Income Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Capital Contributions

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

13. 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, 2017. Accordingly, actual results may differ from such estimates.

14. Proprietary Fund Net Position

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, 2017.

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.

	2017
Net Investment in capital assets:	
Net capital assets	\$ 64,410,544
Less:	
Revenue secured loans	(9,175,622)
Revenue bonds	(6,345,577)
Unamortized debt reoffering premium	92,057
	<u>\$ 48,981,402</u>

15. New Accounting Pronouncements

GASB Statement No. 73 *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68."* The statement establishes accounting and financial reporting requirements related to pension plans provided by governments that are not within the scope of GASB Statement No. 68, extending that approach to all pensions. The statement was effective for the fiscal year ending June 30, 2017. Management does not expect this statement to have a financial impact on the Water Board.

GASB Statement No. 77 *"Tax Abatement Disclosures."* The statement establishes accounting and reporting guidance on tax abatement agreements for governments. The statement was effective for fiscal year ending June 30, 2017. Management does not expect this statement to have a financial impact on the Water Board.

GASB Statement No. 82 *"Pension Issues: an amendment of GASB Statements No. 67, No. 68, and No. 73."* This statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an actuarial standard of practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement was effective for the fiscal year ending June 30, 2017. Management does not expect this statement to have a significant financial impact on the Water Board.

16. New Accounting Pronouncements Upcoming

The Water Board will implement new GASB pronouncements in the fiscal year no later than the required effective date. Management has not yet determined the effect on the financial statements from implementing any of the following pronouncements.

GASB Statement No. 75 *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."* The statement establishes accounting and financial reporting requirements related to other postemployment benefits (OPEB), replacing GASB Statements No. 45 and No. 57. The statement is effective for the fiscal year ending June 30, 2018. Management has not yet determined the financial impact of this statement on the Water Board.

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, 2017, the carrying amounts of the Water Board's deposits in various financial institutions were \$1,503,703 and the bank balances were \$1,686,314. 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, \$750,000 was covered by federal depository insurance. The remaining \$936,314 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.

The Oregon State Treasurer is 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, 2017, the Water Board had invested \$3,275,425 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, 2017. 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, 2017</u>
Oregon State Treasury	
Local Government Investment Pool (LGIP)	<u>\$ 3,275,425</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 for the year ended June 30, 2017 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 deposits, 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. Withdrawals in excess of \$15,000,000 may require 48 hours advance notice.

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

	2017
Petty cash	\$ 3,013
Carrying amount of deposits	1,503,703
Carrying amount of investments	<u>3,275,425</u>
Total cash and cash equivalents	<u>\$ 4,782,141</u>
Cash and cash equivalents:	
In unrestricted accounts	\$ 4,700,504
In restricted accounts (Note III C)	<u>81,637</u>
Total	<u>\$ 4,782,141</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 \$68,706 from Coos Bay and \$53,679 from North Bend for these sewer billing services for the year ending June 30, 2017. 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, office use, and interest, less handling were \$5,369,904. Sewer and storm sewer fees collected by the Water Board and remitted to the City of North Bend, along with interest, less handling were \$2,098,644. 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 \$50,014 at June 30, 2017, to eventually be refunded or applied to water sales.

The remaining restricted item as of June 30, 2017, pertains to \$31,623, of monies being received from customers for project deposits.

D. Utility Plant

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

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 1,313,832	\$ 324,544	\$ (975,413)	\$ 662,963
<i>Capital assets being depreciated:</i>				
Intangible plant, franchises and consents	63,168	233	-	63,401
Source of supply plant	24,267,645	782,704	-	25,050,349
Power and pumping plant	2,795,327	247,870	-	3,043,197
Purification plant	22,004,762	12,579	-	22,017,341
Transmission plant	2,500,184	-	-	2,500,184
Distribution storage plant	3,232,462	16,634	-	3,249,096
Distribution plant	28,765,612	428,697	(58,495)	29,135,814
General plant	7,029,218	214,710	(24,398)	7,219,530
Total capital assets being depreciated	90,658,378	1,703,427	(82,893)	92,278,912
Accumulated depreciation:				
Intangible plant	(1,672)	(152)	-	(1,824)
Source of supply plant	(3,957,278)	(241,751)	-	(4,199,029)
Power and pumping plant	(1,580,383)	(85,507)	-	(1,665,890)
Purification plant	(5,528,293)	(605,043)	-	(6,133,336)
Transmission plant	(1,200,633)	(33,404)	-	(1,234,037)
Distribution storage plant	(1,586,748)	(46,282)	-	(1,633,030)
Distribution plant	(10,429,928)	(488,289)	49,064	(10,869,153)
General plant	(4,091,274)	(308,626)	24,398	(4,375,502)
Unallocated reserve	1,564,077	-	16,393	1,580,470
Total accumulated depreciation	(26,812,132)	(1,809,054)	89,855	(28,531,331)
Total capital assets being depreciated (net)	63,846,246	(105,627)	6,962	63,747,581
Total utility plant	\$ 65,160,078	\$ 218,917	\$ (968,451)	\$ 64,410,544

E. 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.

The cities of Coos Bay and North Bend each borrowed \$5 million dollars on the Water Board's behalf to finance the Pony Creek water treatment plant expansion. Debt repayment began on December 1, 2013. Contract terms include interest at 3.4% over a 24-year time period. The bonds outstanding as of June 30, 2017 for each individual city are as follows:

Fiscal Year	Issue of 2010		
	Total	Principal	Interest
2017-2018	\$ 348,630	\$ 207,851	\$ 140,779
2018-2019	348,630	214,918	133,712
2019-2020	348,630	222,225	126,405
2020-2021	348,630	229,781	118,849
2021-2022	348,630	237,593	111,037
2022-2027	1,743,148	1,314,775	428,373
2027-2032	1,743,148	1,554,011	189,137
2032-2033	164,813	159,394	5,419
Total	<u>\$ 5,394,259</u>	<u>\$ 4,140,548</u>	<u>\$ 1,253,711</u>

Advance refundings – In 2016, the City of Coos Bay, on behalf of the Water Board, issued \$3,200,000 of limited tax full faith and credit refunding obligation bonds at 1.75% to provide resources that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments on refinanced Revenue Bonds issued in 2006. This refunding reduced the total debt service payments over the years by \$296,673. This resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$57,716. At June 30, 2017, there was \$49,272 of unamortized bond discount and issuance costs remaining to be amortized.

The future requirements for amortization of this revenue secured debt are as follows:

Fiscal Year	Issue of November 3, 2016		
	Total	Principal	Interest
2017-2018	\$ 422,763	\$ 370,000	\$ 52,763
2018-2019	431,156	385,000	46,156
2019-2020	429,375	390,000	39,375
2020-2021	427,506	395,000	32,506
2021-2022	430,506	405,000	25,506
2022-2023	428,375	410,000	18,375
2023-2024	431,113	420,000	11,113
2024-2025	428,718	425,000	3,718
Total	<u>\$ 3,429,512</u>	<u>\$ 3,200,000</u>	<u>\$ 229,512</u>

Advance refundings – In 2016, the City of North Bend, on behalf of the Water Board, issued \$3,189,220 of limited tax full faith and credit refunding obligation bonds at 1.68% to provide resources that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments on refinanced Revenue Bonds issued in 2006. This refunding reduced the total debt service payments over the years by \$314,086. This resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$53,941. At June 30, 2017, there was \$42,785 of unamortized bond discount and issuance costs remaining to be amortized.

The future requirements for amortization of this revenue secured debt are as follows:

Fiscal Year	Issue of September 7, 2016		
	Total	Principal	Interest
2017-2018	\$ 418,844	\$ 369,099	\$ 49,745
2018-2019	419,758	376,274	43,484
2019-2020	420,040	382,933	37,107
2020-2021	419,689	389,067	30,622
2021-2022	418,705	394,666	24,039
2022-2023	422,432	405,111	17,321
2023-2024	420,173	409,697	10,476
2024-2025	422,247	418,730	3,517
Total	<u>\$ 3,361,888</u>	<u>\$ 3,145,577</u>	<u>\$ 216,311</u>

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			
	Total	Principal	Interest
2017-2018	\$ 8,620	\$ 4,589	\$ 4,031
2018-2019	8,620	4,818	3,802
2019-2020	8,620	5,057	3,563
2020-2021	8,620	5,308	3,312
2021-2022	8,620	5,572	3,048
2022-2027	43,100	32,301	10,799
2027-2030	25,818	23,452	2,366
Total	<u>\$ 112,018</u>	<u>\$ 81,097</u>	<u>\$ 30,921</u>

Full faith and credit loans – On March 31, 2016, the Water Board secured loans with the State of Oregon, Transportation Infrastructure Fund, in the amount of \$808,000, \$404,000 each city, to finance the South Empire Blvd. Project. This is a primary obligation of the Cities of Coos Bay and North Bend over 10 years at 1.34% annual interest.

The future requirements for amortization of this full faith and credit loan, for each individual city, are as follows, with a slight difference of a few days between the two loans:

Fiscal Year	Issue of March 31, 2016		
	Total	Principal	Interest
2017-2018	\$ 43,302	\$ 38,527	\$ 4,775
2018-2019	43,302	39,045	4,257
2019-2020	43,302	39,570	3,732
2020-2021	43,302	40,102	3,200
2021-2022	43,302	40,641	2,661
2022-2026	173,210	168,281	4,929
Total	<u>\$ 389,720</u>	<u>\$ 366,166</u>	<u>\$ 23,554</u>

2. *Changes in long-term liabilities.*

During the fiscal year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017	Amount due within one year
<u>City of Coos Bay</u>					
Issue 6/14/05	\$ 85,469	\$ -	\$ (4,372)	\$ 81,097	\$ 4,589
Issue 4/26/06 (refunding)	3,395,000	-	(3,395,000)	-	-
Issue 2010	4,341,564	-	(201,016)	4,140,548	207,851
Issue 3/31/16	404,000	-	(37,834)	366,166	38,527
Issue 11/3/16 (refunding)	-	3,200,000	-	3,200,000	370,000
<u>City of North Bend</u>					
Issue 6/14/05	85,469	-	(4,372)	81,097	4,589
Issue 4/26/06 (refunding)	3,395,000	-	(3,395,000)	-	-
Issue 2010	4,341,564	-	(201,016)	4,140,548	207,851
Issue 3/31/16	404,000	-	(37,834)	366,166	38,524
Issue 9/7/16 (refunding)	-	3,189,220	(43,643)	3,145,577	369,099
Total	16,452,066	6,389,220	(7,320,087)	15,521,199	1,241,030
Less unamortized discount	(145,201)	(99,297)	152,441	(92,057)	(12,411)
Total	<u>\$ 16,306,865</u>	<u>\$ 6,289,923</u>	<u>\$ (7,167,646)</u>	<u>\$ 15,429,142</u>	<u>\$ 1,228,619</u>

Additionally, the following changes took place in accrued compensation:

	Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017	Amount due within one year
Accrued vacation	\$ 128,156	\$ 132,948	\$ (155,856)	\$ 105,248	\$ 105,248

F. Operating Leases

The Water Board leased land to four 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, 2017, and required an annual lease payment of \$4,205 for the fiscal year ending June 30, 2017. 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, 2022, and required an annual lease payment of \$11,213 for the fiscal year ending June 30, 2017. 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. The lease contains a five year renewal option with the same terms and conditions. The Water Board expects the lease to be renewed.

3. *Charleston Site – AT&T (formerly Edge Wireless, LLC)*

The original date of this lease was September 1, 2002, and was last renewed August 23, 2007. This lease, ending August 31, 2012, has not been officially renewed, but continues on a year-to-year basis under the same terms. 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. Annual lease payment for fiscal year ending June 30, 2017 was \$11,213.

4. *Easement Agreement - ORCA Communications*

The original date of this lease was July 23, 2014, and was for a five-year term. The contract is \$1,000 per year. ORCA paid for all five years in the first year.

The following is a schedule as of June 30, 2017, of projected future rentals (based on a 2.6% Consumer Price Index increase) on non-cancelable operating leases, with remaining terms in excess of one year, by fiscal year.

<u>June 30th</u>	
2018	<u>\$ 4,226</u>

G. **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. The timber sale scheduled for fiscal year 2017 was postponed to fiscal year 2018 due to low stumpage rates.

H. **Pension – Defined Benefit Plan**

General information about the Plan

Plan Description

The Water Board manages a Retirement Income Plan (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, 2017 was \$1,088,886; the Water Board's total payroll was \$2,074,946. Effective January 1, 2011, the Plan was frozen to new entrants. Eligible employees are those hired before December 31, 2010, who have completed six months of continuous employment.

The Retirement Income Plan for employees of the Water Board's most recent Actuarial Valuation was prepared as of July 1, 2017, 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, 2017 valuation date, there were a total of 73 plan participants, including 20 active, 10 vested terminated and 43 retired plan members.

Plan Benefits

Pension Benefits – Normal retirement amount is based on a formula upon attainment of age 65. Benefits are normally in the form of Modified Cash Refund Life Annuity payable from the Normal Retirement Date.

Early Retirement Benefits - Available based on a formula which may be less than full retirement, depending on age at retirement and the number of years of service.

Disability Benefit – Available upon completion of ten years of service and total and permanent disability.

Severance Benefit – Employees who have completed five years of coverage may elect a return of employee contributions with interest, or a monthly retirement based on the formula. Employees who have not completed five years of service, or attained the age of 55 as of termination of employment, will receive their employee contributions with interest in a lump sum payment.

Preretirement death benefit – If a person who is eligible for early retirement dies while employed, his spouse will receive monthly payments equal to 50% of the benefit which would have been payable had the participant retired on the date of death.

Cost of living adjustments – Member's benefits will be recalculated annually after retirement by use of a factor based on the annual increase or decrease in the Portland, Oregon Consumer Price Index, subject to a maximum annual increase of 2%. In no event will the monthly benefit be decreased below the benefit determined at retirement.

Contributions

The rate of employer contribution is based upon the actuarial valuations. The required employer contribution rate for 2016-17 was 13.34% of annual covered payroll plus an additional monthly amount of \$14,429 which represents 15-year amortization of the unfunded actuarial accrued liability. The actual employer contribution rate for 2016-17 averaged 29.23%. No employee contributions have been made since 1975. Total contributions were \$324,025 for 2016-17.

Net Pension Liability

The Coos Bay-North Bend Water Board's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of June 30, 2017, using an actuarial valuation as of July 1, 2017. The total pension liability is determined using the entry age normal actuarial cost allocation method. GASB 67 and 68 require that the allocation of costs for accounting purposes be made as a level percentage of employees' projected pay, including future anticipated pay increases. The fiduciary net position as of June 30, 2017 is equal to the market value of assets at that date.

Actuarial Methods and Assumptions

Discount rate

The discount rate is a single rate that reflects the long-term expected rate of return on the market value of assets to the extent those assets plus future contributions in excess of the normal costs are sufficient to pay projected benefits, and a 20 year tax-exempt, high quality general obligation municipal bond yield or index rate to the extent that assets and future contributions are not sufficient. Because the Plan is projected to be solvent, the discount rate for purposes of calculating liabilities is equal to the expected long-term expected rate of return on plan assets at the measurement dates. At June 30, 2017, the discount rate was 6.5%, the same as the prior year. Contributions are assumed to be at the actuarially determined amounts.

Actuarial Assumptions

Economic assumptions were based on a review of plan experience, the forecasts of investment consultants, and professional judgment.

Demographic assumptions were based upon review of plan experience and published tables/data, and the actuary's professional judgment regarding future outlook. Certain assumptions (such as pre-retirement mortality) were deemed insignificant to the measurement and therefore not applied.

Changes in actuarial methods and assumptions – There were no changes in actuarial methods or assumptions made for the July 1, 2017 actuarial valuation.

Actuarial methods and assumptions used in developing total pension liability are as follows:

Investment Earnings:	6.5% (net of expenses)	
Salary Increases:	4.0%	
Post-retirement Cost-of-Living Increases:	2.0%	
Inflation	2.75%	
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
Post-retirement Mortality:	RP 2000 Combined Healthy Mortality Table Projected to 2030 by Projections Scale AA	

Assumed Asset Allocation:

Asset Class/Strategy	Target
Short-Term Liquidity	1.0 %
Strategic Bond	43.1 %
Growth and Income	16.9 %
Equitrak-Equity Index	11.1 %
US Growth	16.7 %
US MidCap Growth	<u>11.2 %</u>
Total	100.0 %

Long-term Expected Rate of Return:

The valuation projects that based on parameters and assumptions specified for the GASB 67/68 solvency measurement that the Plan will be solvent, thus the discount rate for purposes of calculating liabilities in the GASB 67 and GASB 68 disclosures is equal to the expected long-term rate of return on plan assets at the respective measurement dates, currently 6.5%.

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 is applied to produce a recommended contribution equal to the Normal Cost expressed as a level percentage of covered payroll, 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 investment accounts with Alliance Capital and AXA Equitable.

The following table presents the changes in Net Pension liability from June 30, 2016 to June 30, 2017:

Changes in Net Pension Liability
June 30, 2016 to June 30, 2017

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances as of June 30, 2016	\$ 8,656,303	\$ 7,034,803	\$ 1,621,500
Changes for the year:			
Service cost	196,219	-	196,219
Interest on total pension liability	553,653	-	553,653
Effect of plan changes	-	-	-
Effect of economic/demographic (gains) or losses	136,027	-	136,027
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(473,362)	(473,362)	-
Administrative expenses	-	-	-
Member contributions	-	-	-
Net investment income	-	687,893	(687,893)
Employer contributions	-	318,392	(318,392)
Balances as of June 30, 2017	<u>\$ 9,068,840</u>	<u>\$ 7,567,726</u>	<u>\$ 1,501,114</u>

The following presents the net pension liability of the Plan, calculated using the discount rate of 6.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percent lower (5.5%) or one percent higher (7.5%) than the current rate:

Sensitivity Analysis

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Total pension liability	\$ 10,175,936	\$ 9,068,840	\$ 8,134,442
Fiduciary net position	<u>(7,567,726)</u>	<u>(7,567,726)</u>	<u>(7,567,726)</u>
Net pension liability	<u>\$ 2,608,210</u>	<u>\$ 1,501,114</u>	<u>\$ 566,716</u>

As of June 30, 2017, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 100,825	\$ -
Changes in assumptions	218,000	-
Net difference between projected and actual earnings on investments	40,039	-
Total	<u>\$ 358,864</u>	<u>\$ -</u>

Amounts currently reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2018	\$ 209,702
2019	155,054
2020	41,243
2021	(47,135)
Thereafter	-
	<u>\$ 358,864</u>

I. 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. 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 the 457(b) plan, not to exceed the annual limit under the Federal Law. The current contract requires the Water Board to contribute to the 401(a) plan 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 to enter the 401(a) 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 401(a) plan. Employees who terminate before 48 months forfeit their 401(a) plan balance. Forfeitures totaled \$101 for the fiscal year ended June 30, 2017. For the fiscal year ended June 30, 2017, the Water Board contributed \$77,187 to the 401(a) plan, and the employees contributed \$69,887 to the 457(b) plan.

J. 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 year ended June 30, 2017 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.

K. 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

**REQUIRED SUPPLEMENTARY
INFORMATION**

COOS BAY-NORTH BEND WATER BOARD
Schedule of Changes in Total Pension Liability, Fiduciary Net Position and Related Ratios
For the Fiscal Year Ended June 30, 2017

<u>Fiscal year ending</u>	<u>Total pension liability (a)</u>	<u>Fiduciary net position (b)</u>	<u>Net pension liability (a) - (b)</u>	<u>Fiduciary net position as a % of total pension liability (b / a)</u>	<u>Covered payroll</u>	<u>Net pension liability as a % of covered payroll</u>
6/30/2017	\$ 9,068,840	\$ 7,567,726	\$ 1,501,114	83.45%	\$ 1,089,245	137.81%
6/30/2016	\$ 8,656,303	\$ 7,034,803	\$ 1,621,500	81.27%	\$ 1,311,857	123.60%
6/30/2015	\$ 8,293,490	\$ 6,915,514	\$ 1,377,976	83.38%	\$ 1,449,465	95.07%
6/30/2014	\$ 7,295,864	\$ 6,560,236	\$ 735,628	89.92%	\$ 1,491,215	49.33%

COOS BAY-NORTH BEND WATER BOARD
Schedule of Employer Contributions
For the Fiscal Year Ended June 30, 2017

Fiscal year ended	Actuarially determined contribution	Actual employer contribution	Contribution deficiency (excess)	Covered payroll	Contribution as a % of covered payroll	Valuation date	Investment Rate of Return Assumption
6/30/17	\$ 316,185	\$ 318,392	\$ (2,207)	\$ 1,089,245	29.23%	7/1/2015	6.50%
6/30/16	\$ 299,141	\$ 328,857	\$ (29,716)	\$ 1,311,857	25.07%	7/1/2013	7.00%
6/30/15	\$ 315,282	\$ 339,371	\$ (24,089)	\$ 1,449,465	23.41%	7/1/2013	7.00%
6/30/14	\$ 344,489	\$ 343,999	\$ 490	\$ 1,491,215	23.07%	7/1/2011	7.00%
6/30/13	\$ 351,329	\$ 351,206	\$ 123	\$ 1,550,750	22.65%	7/1/2011	7.00%
6/30/12	\$ 357,389	\$ 357,233	\$ 156	\$ 1,567,498	22.79%	7/1/2009	7.50%
6/30/11	\$ 372,104	\$ 370,383	\$ 1,721	\$ 1,632,034	22.69%	7/1/2009	7.50%
6/30/10	\$ 216,900	\$ 244,513	\$ (27,613)	\$ 1,506,248	16.23%	7/1/2007	7.50%
6/30/09	\$ 221,762	\$ 237,875	\$ (16,113)	\$ 1,540,017	15.45%	7/1/2007	7.50%
6/30/08	\$ 221,060	\$ 220,491	\$ 569	\$ 1,426,195	15.46%	7/1/2005	7.50%

COOS BAY-NORTH BEND WATER BOARD
Schedule of Changes in Total Pension Liability, Fiduciary Net Position and Related Ratios
For the Fiscal Year Ended June 30, 2017

Notes to Schedule

Valuation date Actuarially determined contribution calculated as of July 1 the year prior to the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates

Actuarial Cost Method Individual Entry Age Normal with Normal Cost Expressed as a Level Percentage of Payroll

Amortization Method Effective 7/1/2011: Closed 15-year amortization, level dollar
Effective 7/1/2005: Open 15-year amortization, level percentage of payroll
Prior to 7/1/2005: Open 20-year amortization, level percentage of payroll

Asset Valuation Method Market value

Healthy Mortality Effective 7/1/2015: RP-2000 Combined Healthy Mortality projected to 2030 using Scale AA
Effective 7/1/2011: RP-2000 Combined Healthy Mortality projected to 2020 using Scale AA
Prior to 7/1/2011: UP-1994 projected to 2012 using Scale AA

Inflation Effective 7/1/2015: 2.75%
Effective 7/1/2005: 3.00%
Prior to 7/1/2005: 4.5%

Future Salary Increases Effective 7/1/2005: 4.00%

SUPPLEMENTARY INFORMATION

COOS BAY-NORTH BEND WATER BOARD
SCHEDULE OF OPERATING REVENUES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Water sales:			
Residential	\$ 4,326,400	\$ 4,263,361	\$ (63,039)
Commercial	1,623,900	1,579,516	(44,384)
Industrial	797,200	638,205	(158,995)
Private fire protection - commercial	36,100	36,803	703
Public authorities - metered	444,400	449,169	4,769
Public authorities - hydrants	34,100	35,454	1,354
Other water sales	12,400	23,712	11,312
	<u>7,274,500</u>	<u>7,026,220</u>	<u>(248,280)</u>
Total water sales			
Other operating revenues:			
Rent from water property	25,900	26,568	668
Servicing customer's installations	11,000	4,035	(6,965)
Miscellaneous water revenue	119,000	127,726	8,726
	<u>155,900</u>	<u>158,329</u>	<u>2,429</u>
Total other operating revenue			
Total operating revenues	<u><u>\$ 7,430,400</u></u>	<u><u>\$ 7,184,549</u></u>	<u><u>\$ (245,851)</u></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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating expenses:			
Source of supply:			
Operating:			
Labor	\$ 48,100	11,536	\$ 36,564
Supplies and expenses	101,800	102,713	(913)
Maintenance:			
Labor	44,600	51,881	(7,281)
Supplies and expenses	42,600	31,452	11,148
Total source of supply	<u>237,100</u>	<u>197,582</u>	<u>39,518</u>
Power and pumping:			
Operating:			
Labor	48,300	31,888	16,412
Supplies and expenses	19,700	14,836	4,864
Power purchase	328,400	314,745	13,655
Maintenance:			
Labor	37,800	34,730	3,070
Supplies and expenses	21,200	28,919	(7,719)
Total power and pumping	<u>455,400</u>	<u>425,118</u>	<u>30,282</u>
Purification:			
Operating:			
Labor	490,600	539,870	(49,270)
Supplies and expenses	426,900	272,444	154,456
Maintenance:			
Labor	68,300	51,848	16,452
Supplies and expenses	19,300	55,817	(36,517)
Total purification	<u>1,005,100</u>	<u>919,979</u>	<u>85,121</u>
Transmission:			
Operating:			
Labor	800	-	800
Supplies and expenses	200	-	200
Maintenance:			
Labor	1,300	2,026	(726)
Supplies and expenses	1,000	865	135
Total transmission	<u>\$ 3,300</u>	<u>\$ 2,891</u>	<u>\$ 409</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Distribution:			
Operating:			
Storage:			
Labor	\$ 47,300	\$ 32,178	\$ 15,122
Supplies and expenses	10,200	8,713	1,487
Mains:			
Labor	193,700	262,941	(69,241)
Supplies and expenses	94,100	37,818	56,282
Meters:			
Labor	79,100	69,351	9,749
Supplies and expenses	72,100	21,246	50,854
Services:			
Labor	90,200	69,227	20,973
Supplies and expenses	7,300	12,544	(5,244)
Maintenance:			
Storage:			
Labor	69,700	36,150	33,550
Supplies and expenses	27,800	18,330	9,470
Mains:			
Labor	131,400	88,246	43,154
Supplies and expenses	78,500	48,915	29,585
Meters:			
Labor	42,300	19,522	22,778
Supplies and expenses	36,300	12,223	24,077
Services:			
Labor	43,400	57,405	(14,005)
Supplies and expenses	38,500	32,557	5,943
Total distribution	<u>\$ 1,061,900</u>	<u>\$ 827,366</u>	<u>\$ 234,534</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Customers' accounting and collecting:			
Operating:			
Meter reading:			
Labor	\$ 239,600	\$ 246,960	\$ (7,360)
Supplies and expenses	25,900	29,465	(3,565)
Collecting:			
Labor	401,200	409,066	(7,866)
Supplies and expenses	89,800	35,211	54,589
Billing:			
Labor	87,400	78,847	8,553
Supplies and expenses	68,700	50,086	18,614
Uncollectible accounts	18,000	400	17,600
	<u>930,600</u>	<u>850,035</u>	<u>80,565</u>
Total customers' accounting and collecting			
Administrative and general:			
Operating:			
Salaries of administrative officers	162,300	192,958	(30,658)
Other general office salaries	381,300	429,089	(47,789)
General office supply and expense	117,900	118,827	(927)
Special services-audit	17,000	22,357	(5,357)
Legal services	45,000	36,769	8,231
Insurance - liability and property	49,300	49,800	(500)
Miscellaneous general expense	12,600	9,607	2,993
General property tax	-	580	(580)
Rents	-	1,279	(1,279)
Employer pension	-	188,956	(188,956)
Maintenance:			
Labor	31,200	32,981	(1,781)
Supplies and expenses	28,500	33,422	(4,922)
	<u>845,100</u>	<u>1,116,625</u>	<u>(271,525)</u>
Total administrative and general			
Depreciation	<u>1,765,300</u>	<u>1,713,337</u>	<u>51,963</u>
Total operating expenses	<u>\$ 6,303,800</u>	<u>\$ 6,052,933</u>	<u>\$ 250,867</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Non-operating revenues (expenses):			
Interest income	\$ 12,000	\$ 34,027	\$ 22,027
Miscellaneous income	305,300	17,007	(288,293)
Sewer service billing income	120,600	122,385	1,785
Interest expense	(590,200)	(409,213)	180,987
Amortization of debt refunding deferral	(17,100)	(160,585)	(143,485)
	<u>(169,400)</u>	<u>(396,379)</u>	<u>(226,979)</u>
Total non-operating revenues (expenses)			
	<u>(169,400)</u>	<u>(396,379)</u>	<u>(226,979)</u>
Net Income	<u>\$ 957,200</u>	735,237	<u>\$ (221,963)</u>
 Adjustments to excess of revenues over expenses to reconcile to changes in Net Position on a GAAP basis:			
Capital contributions received:			
Tap charges		63,940	
System development charges		239,289	
Contributions in aid of construction		<u>8,507</u>	
 Change in Net Position		 <u><u>\$ 1,046,973</u></u>	

See auditor's report.

ACCOMPANYING INFORMATION



**INDEPENDENT AUDITORS REPORT
REQUIRED BY OREGON STATE REGULATIONS**

November 3, 2017

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, 2017, and have issued our report thereon dated November 3, 2017. 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 and 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).

In connection with our testing nothing came to our attention that caused us to believe that the Coos Bay-North Bend Water Board was not in substantial compliance with certain provisions of laws, regulations, contract 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, prescribed by the Oregon Secretary of State.

OAR 162-10-230 Internal Control

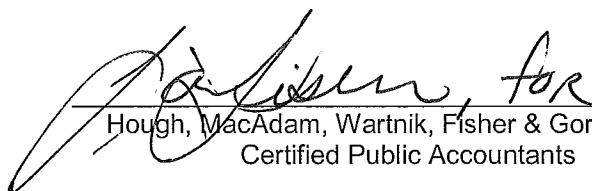
In planning and performing our audit, we considered the Coos Bay-North Bend Water Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion 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. 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, Fisher & Gorman, 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 3, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the Water Board's basic financial statements, and have issued our report thereon dated November 3, 2017.

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.

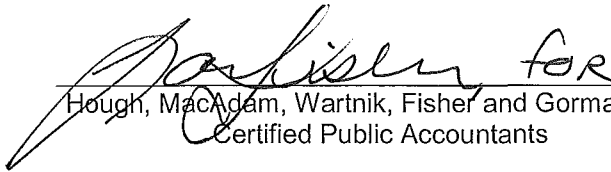
Our consideration of internal control was for the limited purpose described in the first paragraph of this section, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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.



for
Hough, MacAdam, Wartnik, Fisher and Gorman, LLC
Certified Public Accountants