



Coos Bay - North Bend Water Board

COOS COUNTY, OREGON

Financial Statements and Supplementary Information

For the Year Ended June 30, 2018

**Coos Bay - North Bend Water Board**  
**COOS COUNTY, OREGON**

Financial Statements and Supplementary Information  
For the Year Ended June 30, 2018

Prepared by the Finance Department  
Jeffrey Howes  
Finance Director

**COOS BAY - NORTH BEND WATER BOARD**

Year ended June 30, 2018

## Table of Contents

|   | <u>Page</u> |
|---|-------------|
| Introductory Section:   |             |
| List of Principal Officials   | i           |
| Financial Section:  |             |
| Independent Auditor's Report  | 1 - 2       |
| Management's Discussion and Analysis  | 3 - 6       |
| Basic Financial Statements:   |             |
| Statement of Net Position   | 7           |
| Statement of Revenues, Expenses and Changes in Net Position                               | 8           |
| Statement of Cash Flows   | 9           |
| Notes to Financial Statements   | 10 - 21     |
| Required Supplemental Information:  |             |
| Schedule of Changes in Total Pension Liability, Fiduciary Net Position and Related Ratios | 22          |
| Schedule of Employer Contributions  | 23          |
| Notes to Pension Required Supplementary Information                                       | 24          |
| Schedule of Changes in Total OPEB Liability and Related Ratios                            | 25          |
| Supplementary Information:  |             |
| Schedule of Operating Revenues and Expenditures - Budget and Actual                       | 26          |
| Independent Auditor's Report Required by State Statute                                    | 27 - 28     |



## INTRODUCTORY SECTION



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

## **List of Principal Officials**

June 30, 2018

### **BOARD OF DIRECTORS**

|            |                          |
|------------|--------------------------|
| Chair      | Charles J. Sharps, Ph.D. |
| Vice Chair | Melissa Cribbins         |
| Member     | J. Gregory Solarz        |
| Secretary  | Bob Dillard              |

### **ADMINISTRATIVE STAFF**

|                  |                 |
|------------------|-----------------|
| General Manager  | Ivan Thomas     |
| Finance Director | Jeffrey Howes   |
| Legal Counsel    | James C. Coffey |

### **ADDRESS**

Coos Bay - North Bend Water Board  
2305 Ocean Boulevard  
P.O. Box 539  
Coos Bay, OR 97420



## FINANCIAL SECTION





1976 Garden Ave.  
Eugene, OR 97403  
541.342.5161  
[www.islercpa.com](http://www.islercpa.com)

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Coos Bay -- North Bend Water Board  
Coos Bay, Oregon

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Coos Bay - North Bend Water Board ("Water Board"), as of and for the year ended June 30, 2018 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. 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 Water Board as of June 30, 2018, and the changes in its financial position and its cash flows 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, the schedule of changes in total pension liability, fiduciary net position and related ratios, schedule of employer contributions, notes to pension required supplementary information, and the schedule of changes in total OPEB liability and related ratios as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water Board's basic financial statements. The schedule of operating revenues and expenditures - budget and actual and introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Report on Other Legal and Regulatory Requirements**

In accordance with the Minimum Standards of Audits of Oregon Municipal Corporations, we have issued our report dated November 9, 2018 on our consideration of the Water Board's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



By Paul R. Nielson, member of the firm  
for Isler CPA  
November 9, 2018

## 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, 2018. 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

- The assets of the Water Board were \$71,291,861 and \$70,925,122 as of June 30, 2018 and June 30, 2017 respectively, with capital asset values at \$65,139,896 and \$64,410,544, net of accumulated depreciation. Current assets are \$6,151,965 and \$6,514,578 as of June 30, 2018 and June 30, 2017.
- The assets of the Water Board exceeded its liabilities at the close of the 2018 and 2017 fiscal years by \$53,992,469 and \$52,586,831, respectively. Of these amounts, \$3,053,099 and \$3,420,276 may be used to meet the Water Board's ongoing obligations.
- The Water Board's net position increased by \$1,405,638 in the year ended June 30, 2018, and \$1,046,972 during the previous 2017 fiscal year.
- Total liabilities were \$17,387,847 and \$18,800,671 as of June 30, 2018 and June 30, 2017, respectively, with long-term liabilities of \$14,459,084 and \$15,983,066, and other liabilities (comprised of current liabilities and those payable from restricted assets) of \$2,928,763 and \$2,817,605 for fiscal years 2018 and 2017, respectively.
- Total operating revenues for the fiscal year 2017-2018 were \$7,593,864, which is an increase of 3.93% over the prior year.
- Total operating expenses for the fiscal years 2017-2018 and 2016-2017 were \$6,218,265 and \$6,213,522 respectively. This is a decrease of 0.08% over the prior year.

### Overview of the Financial Statements

The Water Board is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Water Board's basic financial statements are comprised of three components; 1) Statement of Net Position; 2) Statement of Revenues, Expenses and Changes in Net Position; and 3) Statement of Cash Flows. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Net Position 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 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 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 \$53.99 million at the close of the most recent fiscal year, an annual increase of \$1.41 million, or 2.67% .

By far the largest portion of the Water Board's net position 94.35% 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.

Total assets, liabilities, deferred inflows/outflows of resources, and net position were as follows:

|                                  | June 30, 2018       | June 30, 2017        | Change              | Percentage Change |
|----------------------------------|---------------------|----------------------|---------------------|-------------------|
| <b>Assets:</b>                   |                     |                      |                     |                   |
| Current assets                   | \$ 6,151,965        | \$ 6,514,578         | \$ (362,613)        | (5.57)%           |
| Capital assets (net)             | <u>65,139,896</u>   | <u>64,410,544</u>    | <u>729,352</u>      | 1.13 %            |
| Total assets                     | <u>71,291,861</u>   | <u>70,925,122</u>    | <u>366,739</u>      | 0.52 %            |
| Deferred Outflows of resources   | <u>259,568</u>      | <u>462,380</u>       | <u>(202,812)</u>    | (43.86)%          |
| <b>Liabilities:</b>              |                     |                      |                     |                   |
| Current liabilities              | 2,928,763           | 2,817,605            | 111,158             | 3.95 %            |
| Long-term liabilities            | <u>14,459,084</u>   | <u>15,983,066</u>    | <u>1,523,982</u>    | (9.53)%           |
| Total liabilities                | <u>17,387,847</u>   | <u>18,800,671</u>    | <u>1,412,824</u>    | (7.51)%           |
| Deferred inflow of resources     | <u>171,113</u>      | <u>-</u>             | <u>171,113</u>      |                   |
| <b>Net position:</b>             |                     |                      |                     |                   |
| Net investment in capital assets | 50,939,370          | 49,166,555           | 1,772,815           | 3.61 %            |
| Unrestricted net position        | <u>3,053,099</u>    | <u>3,420,276</u>     | <u>(367,177)</u>    | (10.74)%          |
| Total net position               | <u>\$53,992,469</u> | <u>\$ 52,586,831</u> | <u>\$ 1,405,638</u> | 2.67 %            |

At June 30, 2018, capital assets net of debt totaled \$51 million, \$3 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 \$1,405,638 an increase of 2.67%, inclusive of prior period adjustment.

Total operating revenues were up 3.93%. The increase is the result of rate adjustments.

The following schedule presents a summary of revenues, expenses and increase in net position for the Water Board and the amount and percentage change from 2017 to 2018.

|  | June 30, 2018        | June 30, 2017        | Change              | Percentage Change |
|--|----------------------|----------------------|---------------------|-------------------|
| Operating revenues:                                      |                      |                      |                     |                   |
| Water sales  | \$ 7,264,323         | \$ 7,026,220         | \$ 238,103          | 3.39 %            |
| Other revenues   | <u>329,541</u>       | <u>280,714</u>       | <u>48,827</u>       | 17.39 %           |
| Total operating revenues                                 | 7,593,864            | 7,306,934            | 286,930             | 3.93 %            |
| Nonoperating revenues:                                   |                      |                      |                     |                   |
| Interest income  | 57,861               | 34,027               | 23,834              | 70.04 %           |
| Miscellaneous  | <u>50,254</u>        | <u>17,007</u>        | <u>33,247</u>       | 195.49 %          |
| Total nonoperating revenues                              | 108,115              | 51,034               | 57,081              | 111.85 %          |
| Total revenues   | 7,701,979            | 7,357,968            | 344,011             | 4.68 %            |
| Operating expenses                                       |                      |                      |                     |                   |
| Depreciation   | 1,711,596            | 1,713,337            | (1,741)             | (0.10)%           |
| Other operating expenses                                 | <u>4,506,669</u>     | <u>4,500,185</u>     | <u>6,484</u>        | - %               |
| Total operating expenses                                 | <u>6,218,265</u>     | <u>6,213,522</u>     | <u>4,743</u>        | 0.08 %            |
| Nonoperating expenses                                    |                      |                      |                     |                   |
| Interest expense   | 403,577              | 409,213              | (5,636)             | (1.38)%           |
| Increase (decrease) in net position before contributions | 1,080,137            | 735,233              | 344,904             | 46.91 %           |
| Capital contributions                                    | <u>325,501</u>       | <u>311,739</u>       | <u>13,762</u>       | 4.41 %            |
| Change in net position                                   | 1,405,638            | 1,046,972            | 358,666             | 34.26 %           |
| Beginning net position*                                  | <u>52,586,831</u>    | <u>51,739,651</u>    | <u>847,180</u>      | 1.64 %            |
| Ending net position                                      | <u>\$ 53,992,469</u> | <u>\$ 52,786,623</u> | <u>\$ 1,205,846</u> | 2.28 %            |

\* Due to implementation of GASB 75, the fiscal year 2018 beginning net position was reduced by \$199,792. Prior year balances were not restated.

Total revenues increased in total by 4.68% or \$344,011 and operating expenses increased in total by 0.08% or \$4,743.

## Capital Asset and Debt Administration

### Capital Assets

The Water Board's investment in capital assets as of June 30, 2018 and 2017 is summarized below:

| Amounts in thousands      | 2018             | 2017             |
|---------------------------|------------------|------------------|
| Land and right of way     | \$ 1,423         | \$ 1,423         |
| Construction in progress  | 1,282            | 663              |
| Equipment                 | 15,556           | 15,879           |
| Building and improvements | 29,511           | 29,891           |
| Infrastructure            | <u>17,368</u>    | <u>16,555</u>    |
| Total                     | <u>\$ 65,140</u> | <u>\$ 64,411</u> |

### *Long Term Debt*

At the end of the 2018 fiscal year, the Water Board had total debt outstanding of \$14.20 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. A summary of long-term debt is listed below:

| Amounts in thousands  | 2018             | 2017             |
|-----------------------|------------------|------------------|
| Pony Creek            | \$ 7,865         | \$ 8,281         |
| Advance refunding     | 5,606            | 6,346            |
| Revenue loans         | 153              | 162              |
| Full faith and credit | 655              | 732              |
| Unamortized discount  | (80)             | (92)             |
| Total                 | <u>\$ 14,199</u> | <u>\$ 15,429</u> |

Amounts show combined amounts for the two cities for each debt issuance.

Additional information on the Water Board's capital assets and long-term debt can be found in the footnotes to the financial statements.

### **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 2018 fiscal year the Water Board built in a 0.25% growth factor for the residential, multi-residential, and commercial customer classes. For the 2018 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, 2018

## ASSETS

### Current assets:

|   |                |
|---|----------------|
| Cash and cash equivalents                                   | \$ 4,641,182   |
| Customer accounts receivable - net of allowance of \$64,776 | 418,878        |
| Accounts receivable - other                                 | 57,183         |
| City sewer receivable                                       | 347,628        |
| Prepaid expenses  | 176,033        |
| Inventory   | <u>511,061</u> |

Total current assets 6,151,965

### Noncurrent assets:

|                |                   |
|----------------|-------------------|
| Capital assets | <u>65,139,896</u> |
|----------------|-------------------|

Total assets 71,291,861

## DEFERRED OUTFLOWS OF RESOURCES

|                                      |                |
|--------------------------------------|----------------|
| Deferred gain on debt refunding      | 89,558         |
| Deferred amounts related to OPEB     | 23,603         |
| Deferred amounts related to pensions | <u>146,407</u> |

Total deferred outflows of resources 259,568

## LIABILITIES

### Current liabilities:

|                                   |                |
|-----------------------------------|----------------|
| Accounts payable                  | 316,264        |
| Payroll payable                   | 97,552         |
| City receivable payable           | 975,317        |
| Accrued interest                  | 170,113        |
| Current portion of long-term debt | 1,266,415      |
| Compensated absences              | <u>103,102</u> |

Total current liabilities 2,928,763

### Long-term liabilities

|                         |                |
|-------------------------|----------------|
| Customer deposits       | 132,105        |
| Bonds and notes payable | 12,934,111     |
| Net pension liability   | 1,205,253      |
| Net OPEB liability      | <u>187,615</u> |

Total long-term liabilities 14,459,084

Total liabilities 17,387,847

## DEFERRED INFLOWS OF RESOURCES

|                                       |                |
|---------------------------------------|----------------|
| Deferred inflows OPEB                 | 8,542          |
| Deferred amounts relating to pensions | <u>162,571</u> |

Total deferred inflows of resources 171,113

## NET POSITION

|                                |                  |
|--------------------------------|------------------|
| Net invested in capital assets | 50,939,370       |
| Unrestricted                   | <u>3,053,099</u> |

Total net position \$ 53,992,469

See accompanying notes to financial statements.

## COOS BAY - NORTH BEND WATER BOARD

### Statement of Revenues, Expenses and Changes in Net Position Year ended June 30, 2018

#### Operating revenues:

|                                |                  |
|--------------------------------|------------------|
| Water sales                    | \$ 7,264,323     |
| Rent from water property       | 198,775          |
| Billing and collecting revenue | <u>130,766</u>   |
| Total operating revenues       | <u>7,593,864</u> |

#### Operating expenses:

|                            |                  |
|----------------------------|------------------|
| Source of supply           | 131,547          |
| Power and pumping          | 427,167          |
| Purification               | 978,307          |
| Transmission               | 625              |
| Distribution               | 930,792          |
| Customer accounting        | 991,328          |
| Administration and general | 1,020,534        |
| Depreciation               | 1,711,596        |
| Amortization               | <u>26,369</u>    |
| Total operating expenses   | <u>6,218,265</u> |

|                         |                  |
|-------------------------|------------------|
| Operating income (loss) | <u>1,375,599</u> |
|-------------------------|------------------|

#### Non-operating revenues (expenses):

|   |                  |
|---|------------------|
| Interest income                         | 57,861           |
| Miscellaneous non-operating revenue     | 50,254           |
| Interest expense                        | <u>(403,577)</u> |
| Total non-operating revenues (expenses) | <u>(295,462)</u> |

|  |                  |
|--|------------------|
| Income (loss) before capital contributions | <u>1,080,137</u> |
|--|------------------|

#### Capital contributions:

|                                      |                |
|--------------------------------------|----------------|
| System development charges           | 306,255        |
| Contributions in aid of construction | <u>19,246</u>  |
| Total capital contributions          | <u>325,501</u> |

|                        |           |
|------------------------|-----------|
| Change in net position | 1,405,638 |
|------------------------|-----------|

|  |                   |
|--|-------------------|
| Total net position - beginning, restated | <u>52,586,831</u> |
|--|-------------------|

|                             |                      |
|-----------------------------|----------------------|
| Total net position - ending | <u>\$ 53,992,469</u> |
|-----------------------------|----------------------|

See accompanying notes to financial statements.

## COOS BAY - NORTH BEND WATER BOARD

Statement of Cash Flows  
Year ended June 30, 2018

### Cash flows from operating activities:

|   |                    |
|---|--------------------|
| Received from customers                     | \$ 7,609,120       |
| Paid to suppliers for goods and services    | (1,210,116)        |
| Paid for employee wages, taxes and benefits | <u>(2,904,976)</u> |
| Net cash provided by operating activities   | <u>3,494,028</u>   |

### Cash flows provided by non-capital financing activities:

|                            |               |
|----------------------------|---------------|
| Misc non-operating revenue | <u>50,254</u> |
|----------------------------|---------------|

### Cash flows from capital and related financing activities:

|   |                    |
|---|--------------------|
| Interest paid   | (412,993)          |
| Principal payments on long-term debt                      | (1,214,658)        |
| Cash paid to acquire and construct capital assets         | (2,440,948)        |
| System development fees received                          | <u>325,501</u>     |
| Net cash used by capital and related financing activities | <u>(3,743,098)</u> |

### Cash flows from investing activities:

|                   |               |
|-------------------|---------------|
| Interest received | <u>57,861</u> |
|-------------------|---------------|

Net decrease in cash and cash equivalents (140,955)

Cash and cash equivalents at beginning of year 4,782,138

Cash and cash equivalents at end of year \$ 4,641,183

### Reconciliation of operating income (loss) to net cash provided by operating activities:

|  |                            |
|--|----------------------------|
| Operating income (loss)  | \$ 1,375,599               |
| Adjustments to reconcile to net cash provided by operating activities: |                            |
| Depreciation   | 1,711,596                  |
| Change in expenses related to GASB 68                                  | 79,167                     |
| Change in expenses related to GASB 75                                  | (27,238)                   |
| Changes in:  |                            |
| Accounts receivable  | (35,213)                   |
| Inventory  | 331,331                    |
| Prepaid expenses   | (32,932)                   |
| Accounts payable   | 68,991                     |
| Payroll and related accruals   | (27,742)                   |
| Customer deposits  | <u>50,469</u>              |
| Net cash provided by operating activities                              | <u><u>\$ 3,494,028</u></u> |

See accompanying notes to financial statements.

# COOS BAY - NORTH BEND WATER BOARD

## Notes to Financial Statements

June 30, 2018

### **Note 1 - Summary of significant accounting policies**

a. *Reporting entity.*

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 Coos Bay and North Bend). 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 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.

b. *Basis of presentation and accounting.*

The Water Board's financial statements are maintained on a flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded at the time they are earned and expenses are recorded at the time liabilities are incurred.

c. *Operating and nonoperating revenues and expenses.*

The Water Board distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations, primarily the sale of water and water service charges. Operating expenses include the cost of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. Revenues and expenses related to financing and construction of systems development are reflected as nonoperating.

d. *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 the reported amounts of assets and liabilities, deferred outflows of resources, deferred inflows of resources, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

e. *Cash and cash equivalents.*

The Water Board's cash and cash equivalents are considered to be cash on hand, demand deposits and all amounts in the State of Oregon Local Government Investment Pool (LGIP).

The Water Board is legally authorized to invest in the types of investments listed in Oregon Revised Statutes section 294.035. The Water Board's investments consist of certificates of deposit and balances in the LGIP, all of which are authorized by Oregon Revised Statutes and are considered cash equivalents by the Water Board.

h. *Receivables.*

Accounts receivables are for residential, commercial, and industrial sales. The credit practices of the Water Board require an evaluation of each new customer's credit worthiness on a case-by-case basis. Services may be terminated for customers more than 65 days delinquent who have not responded to reminder and shut off notices. The allowance for uncollectible accounts is based on an analysis of historical bad debt experience and current receivables aging.

# COOS BAY - NORTH BEND WATER BOARD

## Notes to Financial Statements

June 30, 2018

### **Note 1 - Summary of significant accounting policies (continued)**

*i. Inventory.*

Inventory of materials and supplies is stated at average cost and is charged to operations as used.

*j. Capital assets.*

Capital assets are stated at cost. The cost of internally constructed capital assets includes material, labor, indirect costs, overhead, and contracted services. The Water Board capitalizes assets with an initial cost of more than \$5,000 and an estimated life in excess of one year. Maintenance, repairs, and routine replacements are expensed as incurred. Replacements which improve or extend the lives of the assets are capitalized. Upon the sale or disposal of such assets, the accounts are relieved of the related costs and accumulated depreciation, and resulting gains or losses are reflected in operations. Contributed capital assets, comprised primarily of contributions from developers and customers for additions to mains, hydrants, and services, are recorded at the actual cost incurred by the property owner.

Depreciation is computed on the capital assets placed in service using the straight-line method over their estimated useful lives 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  |

*k. Compensated absences.*

Earned but unpaid vacation and holiday pay is accrued and charged to operating expense. Earned but unpaid sick leave does not vest and is therefore not recorded in the accompanying financial statements.

*l. Restricted resources.*

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

### **Note 2 - Cash and investments**

Cash and cash equivalents are comprised of the following at June 30:

|                                 |                     |
|---------------------------------|---------------------|
| Checking and sweep accounts     | \$ 1,641,060        |
| Deposit with LGIP               | <u>3,000,122</u>    |
| Total cash and cash equivalents | <u>\$ 4,641,182</u> |

The LGIP is an open-ended, no-load diversified portfolio offered to any municipality, political subdivision or public corporation of the State that by law is made the custodian of, or has control of, any public funds. The Office of the State Treasurer (OST) manages the LGIP. The LGIP is commingled with other State funds in the Oregon Short-Term Fund (OSTF). The OSTF is not managed as a stable net asset value fund; therefore, the preservation of principal is not assured. The LGIP is not rated by a national rating service. Fair value of the LGIP is calculated at the same value as the number of pool shares owned. Additional information about the OSTF can be obtained at [www.ost.state.or.us](http://www.ost.state.or.us) and [www.oregon.gov/treasury](http://www.oregon.gov/treasury).

# COOS BAY - NORTH BEND WATER BOARD

Notes to Financial Statements

June 30, 2018

## **Note 2 - Cash and investments (continued)**

*Custodial credit risk.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the Water Board's deposits may not be returned to it. At June 30, 2018, the Water Board's deposits with various financial institutions had a bank balance of \$1,106,670. All deposits not covered by FDIC are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon. The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities.

## **Note 3 - City sewer receivable**

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 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 \$5,743,797. 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.

## **Note 4 - Capital assets**

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

|  | 2017          | Additions    | Transfers and Retirements | 2018          |
|--|---------------|--------------|---------------------------|---------------|
| Capital assets, not being depreciated:       |               |              |                           |               |
| Land and right of way                        | \$ 1,422,884  | \$ -         | \$ -                      | \$ 1,422,883  |
| Construction in progress                     | 662,963       | 2,548,854    | (1,929,729)               | 1,282,088     |
| Total capital assets, not being depreciated  | 2,085,847     | 2,548,854    | (1,929,729)               | 2,704,971     |
| Capital assets, being depreciated:           |               |              |                           |               |
| Equipment                                    | 22,471,272    | 125,793      | (18,922)                  | 22,578,143    |
| Building and improvements                    | 36,711,658    | 65,798       | (2,881)                   | 36,774,575    |
| Infrastructure                               | 31,673,098    | 1,630,232    | (56,901)                  | 33,246,429    |
| Total capital assets being depreciated       | 90,856,028    | 1,821,823    | (78,704)                  | 92,599,147    |
| Less accumulated depreciation for:           |               |              |                           |               |
| Equipment                                    | (6,592,623)   | (448,133)    | 18,922                    | (7,021,834)   |
| Building and improvements                    | (6,820,869)   | (445,566)    | 2,881                     | (7,263,554)   |
| Infrastructure                               | (15,117,839)  | (817,897)    | 56,901                    | (15,878,835)  |
| Total accumulated depreciation               | (28,531,331)  | (1,711,596)  | 78,704                    | (30,164,223)  |
| Total capital assets, being depreciated, net | 62,324,697    | 110,227      | -                         | 62,434,924    |
| Total capital assets, net                    | \$ 64,410,544 | \$ 2,659,081 | \$ (1,929,729)            | \$ 65,139,896 |

# COOS BAY - NORTH BEND WATER BOARD

## Notes to Financial Statements

June 30, 2018

### **Note 5 - Long-term debt**

#### *Bonds and loans payable*

*Pony Creek debt* - In November 2013 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 table below shows the annual debt service requirements to maturity for both loans:

| Year Ending<br>June 30 | Principal           | Interest and<br>Fees | Total               |
|------------------------|---------------------|----------------------|---------------------|
| 2019                   | \$ 214,918          | \$ 133,712           | \$ 348,630          |
| 2020                   | 222,225             | 126,404              | 348,629             |
| 2021                   | 229,781             | 118,849              | 348,630             |
| 2022                   | 237,593             | 111,036              | 348,629             |
| 2023                   | 245,672             | 102,958              | 348,630             |
| 2024 -2028             | 1,359,477           | 383,671              | 1,743,148           |
| 2029-2033              | 1,423,031           | 136,301              | 1,559,332           |
|                        | <u>\$ 3,932,697</u> | <u>\$ 1,112,931</u>  | <u>\$ 5,045,628</u> |

*Advance refunding* - In November 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. At June 30, 2018, there was \$42,628 of unamortized bond discount remaining to be amortized. Annual debt service requirements to maturity are as follows:

| Year Ending<br>June 30 | Principal           | Interest and<br>Fees | Total               |
|------------------------|---------------------|----------------------|---------------------|
| 2019                   | \$ 385,000          | \$ 46,156            | \$ 431,156          |
| 2020                   | 390,000             | 39,375               | 429,375             |
| 2021                   | 400,000             | 32,463               | 432,463             |
| 2022                   | 405,000             | 25,419               | 430,419             |
| 2023                   | 410,000             | 18,288               | 428,288             |
| 2024 -2028             | 840,000             | 14,700               | 854,700             |
|                        | <u>\$ 2,830,000</u> | <u>\$ 176,401</u>    | <u>\$ 3,006,401</u> |

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, 2018 there was \$46,293 of unamortized reported as a deferred outflow of resources.

*Advance refunding* - In November 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. At June 30, 2018, there was \$37,016 of unamortized bond discount remaining to be amortized. Annual debt service requirements to maturity are as follows:

| Year Ending<br>June 30 | Principal           | Interest          | Total               |
|------------------------|---------------------|-------------------|---------------------|
| 2019                   | \$ 376,274          | \$ 43,484         | \$ 419,758          |
| 2020                   | 382,933             | 37,107            | 420,040             |
| 2021                   | 389,067             | 30,622            | 419,689             |
| 2022                   | 394,666             | 24,039            | 418,705             |
| 2023                   | 405,111             | 17,321            | 422,432             |
| 2024 -2028             | 828,427             | 13,993            | 842,420             |
|                        | <u>\$ 2,776,478</u> | <u>\$ 166,566</u> | <u>\$ 2,943,044</u> |

# COOS BAY - NORTH BEND WATER BOARD

Notes to Financial Statements

June 30, 2018

## **Note 5 - Long-term debt (continued)**

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, 2018 there was \$43,265 of unamortized reported as a deferred outflow of resources.

*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 table below shows the annual debt service requirements to maturity for both loans:

| Year Ending<br>June 30 | Principal        | Interest and<br>Fees | Total             |
|------------------------|------------------|----------------------|-------------------|
| 2019                   | \$ 4,816         | \$ 3,804             | \$ 8,620          |
| 2020                   | 5,056            | 3,564                | 8,620             |
| 2021                   | 5,307            | 3,313                | 8,620             |
| 2022                   | 5,571            | 3,049                | 8,620             |
| 2023                   | 5,848            | 2,772                | 8,620             |
| 2024 -2028             | 33,898           | 9,202                | 43,100            |
| 2029-2033              | 16,011           | 1,205                | 17,216            |
|                        | <u>\$ 76,507</u> | <u>\$ 26,909</u>     | <u>\$ 103,416</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 table below shows the annual debt service requirements to maturity for both loans:

| Year Ending<br>June 30 | Principal         | Interest and<br>Fees | Total             |
|------------------------|-------------------|----------------------|-------------------|
| 2019                   | \$ 39,042         | \$ 4,260             | \$ 43,302         |
| 2020                   | 39,567            | 3,735                | 43,302            |
| 2021                   | 40,099            | 3,203                | 43,302            |
| 2022                   | 40,638            | 2,664                | 43,302            |
| 2023                   | 41,185            | 2,118                | 43,303            |
| 2024 -2028             | 127,111           | 3,001                | 130,112           |
|                        | <u>\$ 327,642</u> | <u>\$ 18,981</u>     | <u>\$ 346,623</u> |

:

# COOS BAY - NORTH BEND WATER BOARD

## Notes to Financial Statements

June 30, 2018

### **Note 5 - Long-term debt (continued)**

A summary of the changes in notes payable for the year ended June 30, 2018 follows:

|                           | 2017                 | Payments              | 2018                 | Due Within<br>One Year |
|---------------------------|----------------------|-----------------------|----------------------|------------------------|
| <b>City of Coos Bay</b>   |                      |                       |                      |                        |
| Pony Creek                | \$ 4,140,548         | \$ (207,851)          | \$ 3,932,697         | \$ 214,918             |
| Advance refunding         | 3,200,000            | (370,000)             | 2,830,000            | 385,000                |
| Revenue loans             | 81,097               | (4,590)               | 76,507               | 4,816                  |
| Full faith and credit     | 366,166              | (38,524)              | 327,642              | 39,042                 |
| <b>City of North Bend</b> |                      |                       |                      |                        |
| Pony Creek                | 4,140,548            | (207,851)             | 3,932,697            | 214,918                |
| Advance refunding         | 3,145,577            | (369,099)             | 2,776,478            | 376,274                |
| Revenue loans             | 81,097               | (4,590)               | 76,507               | 4,816                  |
| Full faith and credit     | 366,166              | (38,524)              | 327,642              | 39,042                 |
| Total                     | 15,521,199           | (1,241,029)           | 14,280,170           | 1,278,826              |
| Less unamortized discount | (92,057)             | 12,413                | (79,644)             | (12,411)               |
| Total long-term debt      | <u>\$ 15,429,142</u> | <u>\$ (1,228,616)</u> | <u>\$ 14,200,526</u> | <u>\$ 1,266,415</u>    |

### **Note 6 - Accrued vacation**

Accrued vacation balances was \$103,102 and \$105,248 for the years ended June 30, 2018 and 2017 respectively. The change in accrued vacation consists of decreases of \$141,031 and increases of \$138,885.

### **Note 7 - Risk management**

The Water Board is exposed to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; and natural disasters for which the Water Board carries commercial insurance. The Water Board does not engage in risk financing activities where the risk is retained (self-insurance). There was no significant reduction in the Water Board's major categories of risk insurance coverage, and for the past three years, insurance coverage has been sufficient to cover any losses.

### **Note 8 - Pension plan - defined benefit**

#### ***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 year ended June 30, 2018 was \$1,207,390; the Water Board's total payroll was \$2,956,401. Effective January 1, 2011, the Plan was frozen to new entrants. Eligible employees are those hired before December 31, 2010, who had 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.

# COOS BAY - NORTH BEND WATER BOARD

## Notes to Financial Statements

June 30, 2018

### **Note 8 - Pension plan - defined benefit (continued)**

#### ***Benefits Provided***

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.

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 service 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 adjustment - 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 the year ended June 30, 2018 was 29.23%. The actual employer contribution rate for the year ended June 30, 2018 was 29.23%. No employee contributions have been made since 1975. Total contributions were \$334,214 for the year ended June 30, 2018.

#### ***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, 2018, 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, 2018 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.

# COOS BAY - NORTH BEND WATER BOARD

Notes to Financial Statements

June 30, 2018

## **Note 8 - Pension plan - defined benefit (continued)**

### *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 was a change in actuarial methods or assumptions made for the July 1, 2018 actuarial valuation. The healthy mortality effective 7/1/2015 was changed from using scale A to using scale M

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

|   |  |                     |
|---|--|---------------------|
| Investment earnings                     | 6.5% (net of expenses)   |                     |
| Salary Increases                        | 4%   |                     |
| Post-retirement Cost-of-living increase | 2014, published September 2015   |                     |
| Inflation                               | 2.75%  |                     |
| Termination from Employment:            | Years of Service   | Rate of Termination |
|   | Less than 5  | 4.5%                |
|   | 5-9  | 3%                  |
|   | 10-14  | 1.5%                |
|   | More than 15   | 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      | 11.2%         |
| Total                 | <u>100.0%</u> |

# COOS BAY - NORTH BEND WATER BOARD

## Notes to Financial Statements

June 30, 2018

### **Note 8 - Pension plan - defined benefit (continued)**

#### *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, 2017 to June 30, 2018:

|                                     | <u>Total Pension<br/>Liability</u> | <u>Plan Fiduciary<br/>Net Position</u> | <u>Net Pension<br/>Liability</u> |
|-------------------------------------|------------------------------------|--|----------------------------------|
| Balances as of June 30, 2017        | \$ 9,068,840                       | \$ 7,567,726                           | \$ 1,501,114                     |
| Changes for the year                |                                    |  |                                  |
| Service cost                        | 153,317                            | -                                      | 153,317                          |
| Interest on total pension liability | 579,372                            | -                                      | 579,372                          |
| Benefit payments                    | (464,170)                          | (464,170)                              | -                                |
| Net investment income               | -                                  | 694,336                                | (694,336)                        |
| Employer contributions              | -                                  | 334,214                                | (334,214)                        |
| Balances as of June 30, 2018        | <u>\$ 9,337,359</u>                | <u>\$ 8,132,106</u>                    | <u>\$ 1,205,253</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:

|                         | <u>1% Decrease<br/>(5.50%)</u> | <u>Discount Rate<br/>(6.5%)</u> | <u>1% Increase<br/>(7.50%)</u> |
|-------------------------|--------------------------------|---------------------------------|--------------------------------|
| Total pension liability | \$ 10,458,179                  | \$ 9,337,359                    | \$ 8,389,112                   |
| Fiduciary net position  | (8,132,106)                    | (8,132,106)                     | (8,132,106)                    |
| Net pension liability   | <u>\$ 2,326,073</u>            | <u>\$ 1,205,253</u>             | <u>\$ 257,006</u>              |

For the year ended June 30, 2018, the deferred inflows and outflows of resources are as follows:

|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| Difference between expected and actual experience                   | \$ 64,656                                     | \$ -   |
| Change in assumptions   | 81,751  | -  |
| Net difference between projected and actual earnings on investments | -   | 162,571                                      |
| Total   | <u>\$ 146,407</u>                             | <u>\$ 162,571</u>                            |

## COOS BAY - NORTH BEND WATER BOARD

### Notes to Financial Statements

June 30, 2018

#### **Note 8 - Pension plan - defined benefit (continued)**

The net deferred inflow of resources of \$16,164 will be recognized in pension expense as follows:

|                      |    |                 |
|----------------------|----|-----------------|
| Year end<br>June 30: |    |                 |
| 2019                 | \$ | 113,723         |
| 2020                 |    | (88)            |
| 2021                 |    | (88,466)        |
| 2022                 |    | <u>(41,333)</u> |
| Total                | \$ | <u>(16,164)</u> |

#### **Note 9 - Defined contribution plan**

For employees hired or rehired on or after January 2011, the Water Board has established a 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. For the fiscal year ended June 30, 2018 the Water Board contributed \$99,758 to the 401(a) plan, and the employees contributed \$83,371 to the 457(b) plan.

#### **Note 10 - Post employment benefits other than pensions**

The Water Board provides an implicit rate subsidy for retiree health insurance premiums. The Water Board's single-employer defined benefit postemployment healthcare plan is administered by City County Insurance Services. Benefit provisions are established through negotiations between the Water Board and representatives of collective bargaining units or through resolutions passed by the Water Board. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

##### *Financial Statement Presentation*

The amounts on the financial statements relate to the plans as follows:

|                                      |    |           |
|--------------------------------------|----|-----------|
| Net OPEB assets                      | \$ | -         |
| Deferred outflow of resources        |    |           |
| Contributions after measurement date |    | 23,603    |
| Net OPEB liability                   |    | (187,615) |
| Deferred outflow of resources        |    |           |
| Change in assumptions                |    | 8,542     |

Deferred outflows of resources related to OPEB of \$304,424 resulting from the Water Board's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

## COOS BAY - NORTH BEND WATER BOARD

Notes to Financial Statements

June 30, 2018

### **Note 10 - Post employment benefits other than pensions (continued)**

| Year ended<br>June 30: |                 |
|------------------------|-----------------|
| 2018                   | \$ 1,238        |
| 2019                   | 1,238           |
| 2020                   | 1,238           |
| 2021                   | 1,238           |
| 2022                   | 1,238           |
| 2022                   | <u>2,352</u>    |
| Total                  | <u>\$ 8,542</u> |

#### *Benefits Provided*

The plan provides eligible retirees and their dependents under age 65 the same health care coverage at the same premium rates as offered to active employees. The retiree is responsible for the premiums. As of the valuation date of July 1, 2016, the following employees were covered by the benefit terms:

|  |           |
|--|-----------|
| Inactive employees or beneficiaries receiving benefits | 2         |
| Active employees                                       | <u>36</u> |
| Total  | <u>38</u> |

#### *Total OPEB Liability and OPEB Expense*

The Water Board's total OPEB liability of \$187,615 was measured as of June 30, 2017, and was determined by an actuarial valuation as of July 1, 2016.

For the fiscal year ended June 30, 2018, the City recognized OPEB expense from this plan of \$16,450.

#### *Actuarial Assumptions and Other Inputs*

The total OPEB liability in the July 1, 2016 valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

|                        |  |
|------------------------|--|
| Actuarial cost method  | Entry age normal   |
| Inflation              | 2.5 percent  |
| Annual pay increases   | 3.5 percent  |
| Mortality              | RP-2000 healthy white collar male and female mortality tables, set back one year for males. Mortality is projected on a generational basis using Scale BB for males and females. |
| Discount rate          | 3.58 percent (change from 2.58 percent in previous measurement period)   |
| Health Care Cost Trend | 7 percent per year decreasing to 5 percent   |

The discount rate was based on Bond Buyer 20-Year General Obligation Bond Index.

# COOS BAY - NORTH BEND WATER BOARD

Notes to Financial Statements

June 30, 2018

## **Note 10 - Post employment benefits other than pensions (continued)**

### *Changes in the Total OPEB Liability*

|   | Total OPEB<br>Liability |
|---|-------------------------|
| Balance as of June 30, 2017             | \$ 199,792              |
| Changes for the year                    |                         |
| Service cost                            | 11,938                  |
| Interest on total OPEB liability        | 5,750                   |
| Effect of assumptions changes or inputs | (9,780)                 |
| Benefit payments                        | (20,085)                |
| Balance as of June 30, 2018             | <u>\$ 187,615</u>       |

Changes in assumptions is the result of the change in the discount rate from 2.85 to 3.58.

### *Sensitivity of the Total OPEB Liability*

The following presents the Water Board's total OPEB liability, as well as what the liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current discount rate. A similar sensitivity analysis is then presented for changes in the healthcare trend assumption.

|                      | 1% Decrease<br>(2.58) | Discount Rate<br>(3.58%) | 1% Increase<br>(4.58%) |
|----------------------|-----------------------|--------------------------|------------------------|
| Discount Rates:      |                       |                          |                        |
| Total OPEB Liability | \$ 200,603            | \$ 187,615               | \$ 175,687             |
| Health Cost Trends:  |                       |                          |                        |
| Total OPEB Liability | \$ 171,890            | \$ 187,615               | \$ 206,388             |

## **Note 11 - Change in accounting principle**

In implementing GASB Statement No. 75, the Water Board has restated beginning net position in order to recognize the correct Total OPEB Liability for the Water Board's Implicit Rate Subsidy plan. The Water Board had previously reported a Net OPEB Obligation in accordance with GASB Statement No. 45 related to the Implicit Rate Subsidy plan, which has been replaced with the Total OPEB Liability. The restatement also recognizes a deferred outflow of resources related to OPEB for contributions made after June 30, 2017 measurement date. Net position as of July 1, 2017 was restated as follows:

|   |                      |
|---|----------------------|
| Net position - beginning (as reported)              | \$ 52,786,624        |
| Cumulative effect of change in accounting principle | (199,792)            |
| Net position - beginning (as restated)              | <u>\$ 52,586,832</u> |



REQUIRED SUPPLEMENTARY INFORMATION



## COOS BAY - NORTH BEND WATER BOARD

### Schedule of Changes in Total Pension Liability, Fiduciary Net Position and Related Ratios

Year Ended June 30, 2018

|   | 2018                | 2017                | 2016                | 2015                | 2014                |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total pension liability   | <u>\$ 9,337,359</u> | <u>\$ 9,068,840</u> | <u>\$ 8,656,303</u> | <u>\$ 8,293,490</u> | <u>\$ 7,295,864</u> |
| Fiduciary net position  | <u>8,132,106</u>    | <u>7,567,726</u>    | <u>7,034,803</u>    | <u>6,915,514</u>    | <u>6,560,236</u>    |
| Net pension liability   | <u>\$ 1,205,253</u> | <u>\$ 1,501,114</u> | <u>\$ 1,621,500</u> | <u>\$ 1,377,976</u> | <u>\$ 735,628</u>   |
| Fiduciary net position as a percentage of total pension liability                       | 87.09 %             | 83.45 %             | 81.27 %             | 83.38 %             | 89.92 %             |
| Covered payroll   | \$ 1,207,390        | \$ 1,089,245        | \$ 1,311,857        | \$ 1,449,465        | \$ 1,491,215        |
| Net pension liability as a percentage of covered payroll                                | 99.82 %             | 137.81 %            | 123.60 %            | 95.07 %             | 49.33 %             |
| 10-year trend information required by GASB Statement 68 will be presented prospectively |                     |                     |                     |                     |                     |

# COOS BAY - NORTH BEND WATER BOARD

## Schedule of of Employer Contributions

Year Ended June 30, 2018

|               | Actuarially<br>determined<br>contribution | Actual<br>employer<br>contribution | Contribution<br>deficiency<br>(excess) | Covered<br>payroll | Contribution as<br>a percentage of<br>covered payroll | Valuation<br>Date | Investment rate<br>of return<br>Assumption |
|---------------|---|------------------------------------|--|--------------------|---|-------------------|--|
| June 30, 2018 | \$ 331,946                                | \$ 334,214                         | \$ (2,268)                             | \$ 1,207,390       | 27.68 %   | 7/1/2015          | 6.50%                                      |
| June 30, 2017 | 316,185                                   | 318,392                            | (2,207)                                | 1,089,245          | 29.23 %   | 7/1/2015          | 6.50%                                      |
| June 30, 2016 | 299,141                                   | 328,857                            | (29,716)                               | 1,311,857          | 25.07 %   | 7/1/2013          | 7.00%                                      |
| June 30, 2015 | 315,282                                   | 339,371                            | (24,089)                               | 1,449,465          | 23.41 %   | 7/1/2013          | 7.00%                                      |
| June 30, 2014 | 344,489                                   | 343,999                            | 490                                    | 1,491,215          | 23.07 %   | 7/1/2011          | 7.00%                                      |
| June 30, 2013 | 351,329                                   | 351,206                            | 123                                    | 1,550,750          | 22.65 %   | 7/1/2011          | 7.00%                                      |
| June 30, 2012 | 357,389                                   | 357,233                            | 156                                    | 1,567,498          | 22.79 %   | 7/1/2009          | 7.50%                                      |
| June 30, 2011 | 372,104                                   | 370,383                            | 1,721                                  | 1,632,034          | 22.69 %   | 7/1/2009          | 7.50%                                      |
| June 30, 2010 | 216,900                                   | 244,513                            | (27,613)                               | 1,506,248          | 16.23 %   | 7/1/2007          | 7.50%                                      |
| June 30, 2009 | 221,762                                   | 237,875                            | (16,113)                               | 1,540,017          | 15.45 %   | 7/1/2007          | 7.50%                                      |

## COOS BAY - NORTH BEND WATER BOARD

### Notes to Pension Required Supplementary Information

Year Ended June 30, 2018

|  |   |
|--|---|
| 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<br>Effective 7/1/2005: Open 15-year amortization, level percentage of payroll<br>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 M Effective<br>7/1/2011: RP-2000 Combined Healthy Mortality projected to 2020 using Scale M<br>Prior to 7/1/2011: UP-1994 projected to 2012 using Scale AA |
| Inflation  | Effective 7/1/2015: 2.75%<br>Effective 7/1/2005: 3.00%<br>Prior to 7/1/2005: 4.5%   |
| Future Salary Increases                                      | Effective 7/1/2005: 4.00%   |

## COOS BAY - NORTH BEND WATER BOARD

### Schedule of Changes in Total OPEB Liability and Related Ratios

Year Ended June 30, 2018

|   | 2018                     |
|---|--------------------------|
| Balance at beginning of year                            | <u>\$ 199,792</u>        |
| Services cost   | 11,938                   |
| Interest on total OPEB liability                        | 5,750                    |
| Effect of assumptions changes or inputs                 | (9,780)                  |
| Benefit payments  | <u>(20,085)</u>          |
| Balance at end of year                                  | <u><u>\$ 187,615</u></u> |
| Covered payroll   | \$ 1,207,390             |
| Total OPEB liability as a percentage of covered payroll | 15.54 %                  |

10-year trend information required by GASB Statement 75 will be presented prospectively

## SUPPLEMENTAL INFORMATION



# COOS BAY - NORTH BEND WATER BOARD

## Schedule of Operating Revenues and Expenditures - Budget and Actual For the Year Ended June 30, 2018

|   | ORIGINAL<br>and FINAL<br>BUDGET | ACTUAL           | VARIANCE TO<br>FINAL BUDGET<br>POSITIVE<br>(NEGATIVE) |
|---|---------------------------------|------------------|---|
| Revenues:                               |                                 |                  |   |
| Water sales                             | \$ 7,356,900                    | \$ 7,264,323     | \$ (92,577)   |
| Other operating revenues                | 152,900                         | 198,775          | 45,875  |
| Billing and collecting revenue          | <u>130,800</u>                  | <u>130,766</u>   | <u>(34)</u>   |
| Total operating revenues                | <u>7,640,600</u>                | <u>7,593,864</u> | <u>(46,736)</u>                                       |
| Operating expenses:                     |                                 |                  |   |
| Source of supply                        | 284,700                         | 130,892          | 153,808   |
| Power and pumping                       | 498,200                         | 426,072          | 72,128  |
| Purification                            | 982,600                         | 966,970          | 15,630  |
| Transmission                            | 3,800                           | 625              | 3,175   |
| Distribution                            | 1,035,000                       | 918,168          | 116,832   |
| Customer accounting                     | 1,001,500                       | 977,089          | 24,411  |
| Admin and general                       | 930,500                         | 1,008,555        | (78,055)  |
| Depreciation                            | 1,800,600                       | 1,711,596        | 89,004  |
| Amortization expense                    | <u>-</u>                        | <u>26,369</u>    | <u>(26,369)</u>                                       |
| Total operating expenses                | <u>6,536,900</u>                | <u>6,166,336</u> | <u>370,564</u>  |
| Operating income                        | <u>1,103,700</u>                | <u>1,427,528</u> | <u>323,828</u>  |
| Non-operating revenues (expenses):      |                                 |                  |   |
| Interest income                         | 26,400                          | 57,861           | 31,461  |
| Misc non-operating revenue              | -                               | 50,254           | 50,254  |
| Interest expense                        | <u>-</u>                        | <u>(403,577)</u> | <u>(403,577)</u>                                      |
| Total non-operating revenues (expenses) | <u>26,400</u>                   | <u>(295,462)</u> | <u>(321,862)</u>                                      |
| Net income                              | <u>\$ 1,130,100</u>             | 1,132,066        | <u>\$ 1,966</u>                                       |

### Reconciliation to change in net position, items not budgeted for :

|  |               |
|--|---------------|
| System development and similar charges | 306,255       |
| Contributions in aid of construction   | 19,246        |
| Change in expenses due to GASB 68      | (79,167)      |
| Change in expenses due to GASB 75      | <u>27,238</u> |

### Change in net position, June 30, 2018

\$ 1,405,638



COMMENTS AND DISCLOSURES OF INDEPENDENT AUDITOR REQUIRED BY STATE STATUTE





1976 Garden Ave.  
Eugene, OR 97403  
541.342.5161  
www.islercpa.com

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

Board of Directors  
Coos Bay-North Bend Water Board  
Coos Bay, Oregon

We have audited the basic financial statements of the Coos Bay-North Bend Water Board (Water Board), as of and for the year ended June 30, 2018, and have issued our report thereon dated November 9, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### **Compliance**

As part of obtaining reasonable assurance about whether the Water Board's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including provisions of the Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-320, of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

In connection with our testing nothing came to our attention that caused us to believe the Water Board was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

### **OAR 162-10-0230 Internal Control**

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

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

This report is intended for the information of management and the State of Oregon, Secretary of State, Audits Division. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Paul R. Nielson". The signature is written in a cursive, flowing style.

By Paul R. Nielson, member of the firm  
for Isler CPA  
November 9, 2018